



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2011**

PREPARED BY

**FINANCE DEPARTMENT
CITY OF STEPHENVILLE, TEXAS**

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CITY OF STEPHENVILLE, TEXAS

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INTRODUCTORY SECTION

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February 7, 2012

TO: The Honorable Mayor, Members of the City Council, and the Citizens of Stephenville (the “City”)

Submitted herewith is a copy of the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2011. Responsibility for both the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City’s financial activities have been included.

The Governmental Accounting Standards Board (GASB) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management’s discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City’s MD&A can be found immediately following the independent auditors’ report.

THE REPORTING ENTITY



The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State and the City’s home rule Charter. The City was incorporated in 1889 and chartered a home-rule city under Texas law in 1961. The City occupies approximately 11.79 square miles and serves a population of about 17,480. The City is empowered by state statute to levy a tax on both real and business personal property located within its boundaries. The City also has the power by state statute to extend its corporate city limits by annexation, which is done periodically when deemed appropriate by the City Council.

The City operates under the mayor-council form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and eight (8) Council members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the City Administrator. The City Administrator is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and appointing heads of various departments. The Mayor and City Council members serve two (2) year terms. All elected officials are elected at large. The basic financial statements of the City include all governmental activities, organizations and functions for which the City is financially accountable as defined by the Government Accounting Standards Board (GASB). Based on these criteria no other governmental organizations are included in this report.

SERVICES PROVIDED

The City provides a full range of services, including public safety (police, fire, and emergency medical), maintenance of streets and infrastructure, sanitation services, maintenance of the treated water distribution system and both sanitary and storm sewer collection and transmission systems, recreational activities and cultural events, landfill operations, airport facility maintenance as well as general administrative services.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The City's accounting records for general governmental operations are maintained on the modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities incurred. Accounting records for the City's utilities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The annual budget serves as the foundation of the City's financial planning and control. The City Council formally adopts the budget and legally appropriates available monies for activities of the General Fund, Enterprise Funds, Special Revenue Funds, the Debt Service Fund and Capital Improvements.

No later than August 1st, the City Administrator submits to the City Council a proposed budget which provides a complete plan for the fiscal year commencing October 1. The budget includes proposed expenditures and the means of financing them. The proposed budget is made available for public inspection and a public hearing is held to allow for citizen comment. After the public hearing, the Council may make changes to any item in the budget, except those fixed by law. No later than September 23, the budget is legally enacted via an ordinance which sets the limit on expenditures during the fiscal year. Additional expenditures may be authorized in the case of grave public necessity to meet unusual and unforeseen conditions which could not have reasonably been foreseen at the time the budget was adopted.

The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the departmental level; however, expenditures are monitored monthly at the department level to insure financial accountability by department directors. Management control of budgets is further maintained at the line item level within the department. The City also maintains an encumbrance accounting system to further accomplish budgetary control. Under the City's financial policies, encumbered amounts in the General Fund at year-end lapse. Encumbrances are generally re-appropriated as a part of the following year's budget. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

ECONOMY AND BUSINESS CLIMATE

The City currently enjoys a fairly stable and diversified economic environment, bolstered by the strength of both the Cross Timbers area and the State of Texas. Local manufacturing includes coated abrasives, oilfield related products, cream cheese, fiber gratings and fasteners, metal processing of electrical products, trailer customizing, and forging pipe unions. Tarleton State University provides further economic stability as the largest employer. Agriculture is Stephenville's leading industry with dairy, horse and cattle ranching, and agricultural crop production as the major economic contributors. Erath County is the state's leading milk producer. Stephenville continues to act as a retail and medical hub of the area. The local unemployment rate of 6.5% continues to compare favorably with state and national levels. Property values, sales tax receipts and building activity reflect the area's positive economic climate.

The City's ability to respond to on-going economic challenges will require careful long-range planning. The City has responded to the economy by fiscal conservatism and implementing operating budget efficiencies that have resulted in its maintaining healthy equity balances in its General Fund and Water/Wastewater Funds.

Users of this document are encouraged to read the City's Fiscal Year 2011-2012 Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. Also available for reference is the City of Stephenville's Comprehensive Plan which was adopted in 2006 and maps out the City's future strategies.

LONG-TERM FINANCIAL PLANNING

The City issued \$4.0 million in Certificates of Obligation in October 2011 for the purpose of constructing a new Fire Station No. 2, and for major Street reconstruction projects. Construction is expected to begin on the Fire Station in July 2012 and to be completed by July 2013. The Fire Station is estimated to cost approximately \$3.5 million. The City has designated \$2.5 million towards the Fire Station the other \$1 million will be coming from our reserves. The other \$1.5 million of the issue is designated to fund Street reconstruction projects.

ECONOMIC PROSPECT FOR THE FUTURE

During 2011, the City participated in an Economic Development Program with Tejas Tubular to extend Caporal Drive by approximately 1,500 feet. By extending the drive it enabled Tejas Tubular to construct a new ERW mill on their site. The cost to the City was approximately \$329 thousand and is expected to create approximately 10 to 20 new jobs for Stephenville as well as increasing the overall tax base.

The City also participated in a tax abatement program with FMC Technologies Fluid Control Division to expand their facilities. The tax abatement helped to spur \$12.5 million of facility improvements and \$13.7 of capital machinery and equipment for the facility expansion. This expansion also is expected to create approximately 80 new jobs when completed in the Spring of 2012.

INDEPENDENT AUDIT

The City's financial statements have been audited by Pattillo, Brown and Hill LLP, Independent Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2011, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2011, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement in Financial Reporting to the City of Stephenville for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2010.

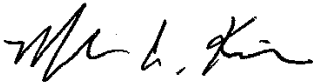
The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This award was the 26th consecutive year that the City of Stephenville has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the City. We would like to express our appreciation to all staff members who assisted and contributed to its preparation. We would also like to thank the Mayor and City Council members for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully Submitted,



Mark A. Kaiser
City Administrator



Walter G. Wood
Director of Finance & Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to
City of Stephenville
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Sandison

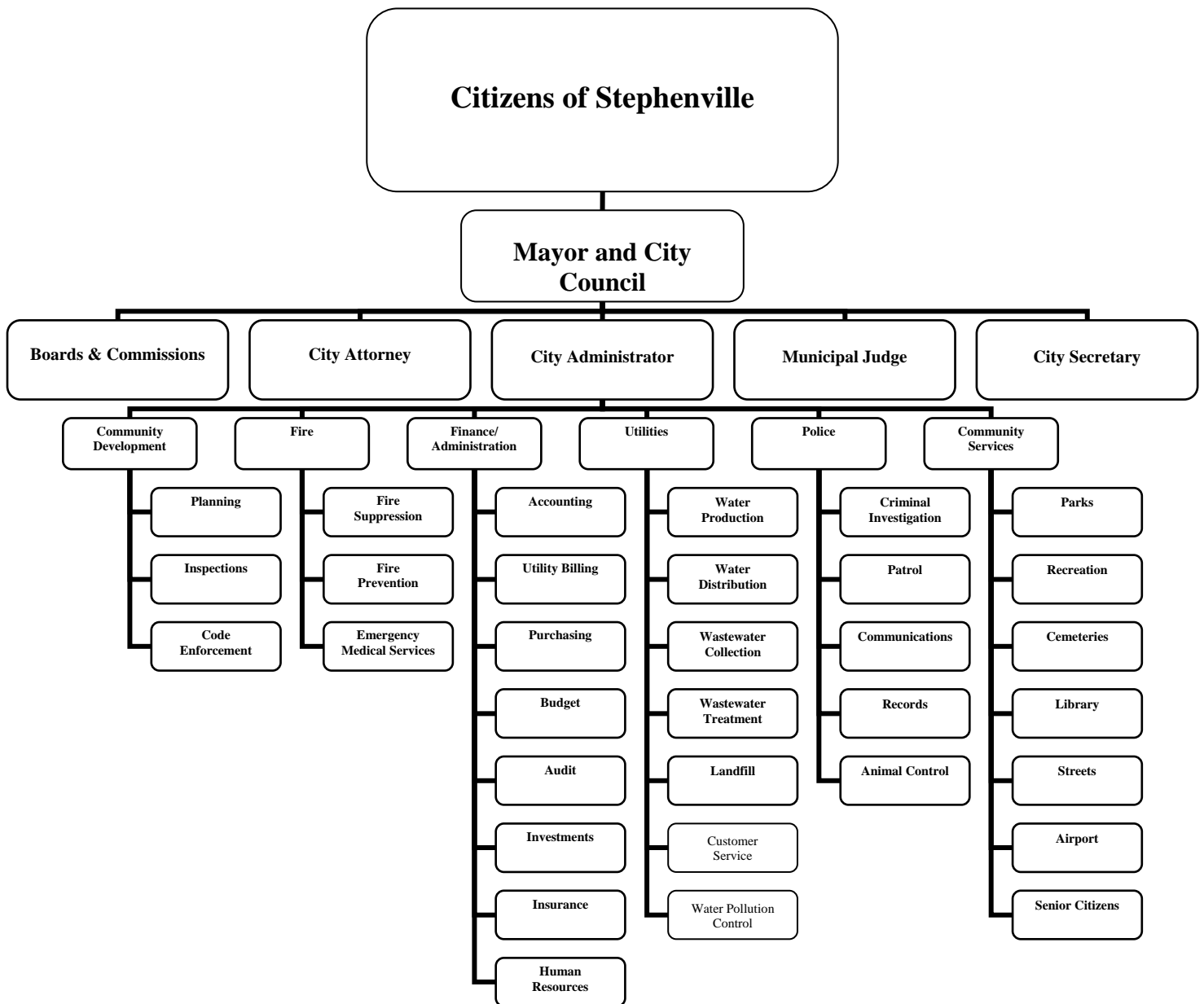
President

Jeffrey R. Enen

Executive Director

CITY OF STEPHENVILLE, TEXAS

ORGANIZATION CHART



CITY OF STEPHENVILLE, TEXAS

PRINCIPAL CITY OFFICIALS

SEPTEMBER 30, 2011

Mayor	Nancy A. Hunter
Council Members	Joe Cude
	Dr. Malcom L. Cross
	Doug Svien
	Russ McDanel
	Alan Nash
	Alan Nix
	Martha Taylor
	Scott Evans
City Administrator	Mark A. Kaiser
Director of Finance/Administration	Walter G. Wood
Director of Utilities	Nick Williams
Director of Community Development	Betty Chew
Police Chief	Patrick Bridges
Fire Chief	Jimmy Chew
Director of Community Services	Drew Wells
City Secretary	Cindy Stafford

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of City Council
City of Stephenville, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Stephenville, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Stephenville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stephenville, Texas, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Pattillo, Brown & Hill, L.L.P.

January 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

This section of the City of Stephenville's (City) annual financial report presents our discussion of the City's financial performance during the fiscal year ended September 30, 2011. Please read it in conjunction with the transmittal letter, which can be found preceding this narrative, and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceed its liabilities as of September 30, 2011, by \$57,985,258 (net assets). Of this amount, \$13,705,352 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$1,883,623. The majority of this increase is attributable to excess revenue over expenses in Water and Wastewater.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,458,533, a decrease of \$322,909 over the prior year. The decrease in combined ending fund balances is attributable to use of surplus funds for capital projects. Approximately 95% of this total amount, \$8,015,503 is available for spending at the City's discretion (assigned and unassigned fund balance).
- As of September 30, 2011, unassigned fund balance for the General Fund was \$3,779,268 or 35 percent of total general fund expenditures.
- The City's total bond debt decreased by \$2,088,000 (8%) during the current fiscal year as a result of principal retirement.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Stephenville's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Stephenville is improving or deteriorating. The government-wide financial statements can be found on pages 12 -13 of this report.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensation absences). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities).

The governmental activities of the City include general government, public safety, streets, library, cemetery, culture and recreation, and community development. The business-type activities of the City include water and wastewater, storm water drainage, solid waste, and airport operations.

Reporting the City's Most Significant Funds

Fund Financial Statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state laws or bond covenants. The Council establishes other funds to control and manage money for particular purposes or as evidence of meeting legal responsibilities for using certain taxes, grants and other money. The City has two types of funds: governmental funds and proprietary funds.

Governmental Funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the available balances at year-end. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there has been an increase or decrease in financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements. The basic governmental fund financial statements can be found on pages 14-16 of this report.

A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements and schedules elsewhere in this report.

Proprietary Funds. The City charges customers for the services it provides through service delivery agreements to outside customers or through customer service agreements within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements, but with additional detail and information, such as cash flows. Individual proprietary fund data is found on pages 20 – 23 of this report.

The City maintains one type of proprietary fund-Enterprise Funds. The City uses the Enterprise Funds to account for water, wastewater, storm water drainage, solid waste, and airport operations. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and funds financial statements. The notes to the financial statements can be found on pages 24 – 47 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information in the form of combining fund statements and schedules for nonmajor funds. These are presented immediately following the notes to the financial statements beginning on page 48 of this report.

THE CITY AS A WHOLE

GOVERNMENT WIDE FINANCIAL ANALYSIS

The City's combined net assets were \$57,985,258 as of September 30, 2011, an increase of 3.4% compared to fiscal year ending 2010. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business-type activities net assets are \$32,801,826, an increase of \$1,846,301 over prior year. The governmental activities net assets are \$25,183,432, an increase of \$37,322 over prior year.

By far, the largest portion of the City's net assets (74 percent) reflects its investments in capital assets (e.g., land, buildings, machinery, equipment and infrastructure) less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$1,135,424, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$13,705,352, may be used to meet the City's ongoing obligations to citizens and creditors.

As of September 30, 2011, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same held true for the prior fiscal year. Overall, the City had an increase in net assets of \$1,883,623.

CITY OF STEPHENVILLE'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 9,231,566	\$ 9,730,170	\$ 7,466,296	\$ 6,728,514	\$ 16,697,862	\$ 16,458,684
Capital assets	18,850,089	18,990,167	47,439,098	48,029,873	66,289,187	67,020,040
Total assets	28,081,655	28,720,337	54,905,394	54,758,387	82,987,049	83,478,724
Liabilities	420,768	606,286	968,823	846,996	1,389,591	1,453,282
Noncurrent liabilities	2,470,159	2,967,941	21,119,385	22,955,866	23,589,544	25,923,807
Total liabilities	2,890,927	3,574,227	22,088,208	23,802,862	24,979,135	27,377,089
Net assets:						
Invested in capital assets, net of related debt	16,605,859	16,763,870	26,538,623	25,323,978	43,144,482	42,087,848
Restricted	420,877	429,976	714,547	690,998	1,135,424	1,120,974
Unrestricted	8,156,696	7,952,264	5,548,656	4,940,549	13,705,352	12,892,813
Total net assets	\$ 25,183,432	\$ 25,146,110	\$ 32,801,826	\$ 30,955,525	\$ 57,985,258	\$ 56,101,635

Governmental Activities. The City's total revenues for governmental activities decreased from the previous year by \$903,135 or 7%. General revenues increased \$290,944 or 3% when compared to the prior year. The ad valorem tax revenue increased \$142,925 or 4%. This increase was due to an increase in the tax rate of .0165 to .4600 per \$100 assessed valuation. The effect of the tax rate on ad valorem tax revenue was partially offset by a decrease in net assessed taxable value from \$896 million in the prior fiscal year to \$885 million in the current year.

The following table provides a summary of the City's operations for the year ended September 30, 2011, with comparative totals for the year ended September 30, 2010. Governmental activities increased the City's net assets by \$37,322 or 2 percent of the total growth in net assets.

CITY OF STEPHENVILLE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 1,722,659	\$ 1,569,968	\$ 7,092,932	\$ 6,232,051	\$ 8,815,591	\$ 7,802,019
Operating grants	40,015	43,417	5,184	17,808	45,199	61,225
Capital grants and contributions	258,933	1,602,301	528,471	402,702	787,404	2,005,003
General revenues:						
Property taxes	4,122,467	3,979,542	-	-	4,122,467	3,979,542
Sales taxes	4,616,312	4,275,545	-	-	4,616,312	4,275,545
Franchise taxes	1,120,678	1,018,036	-	-	1,120,678	1,018,036
Other taxes	363,645	341,456	-	-	363,645	341,456
Gain on sale of capital assets	12,159	323,641	-	-	12,159	323,641
Investment earnings	13,517	32,294	5,151	6,714	18,668	39,008
Miscellaneous	26,870	14,190	-	-	26,870	14,190
Total revenues	<u>12,297,255</u>	<u>13,200,390</u>	<u>7,631,738</u>	<u>6,659,275</u>	<u>19,928,993</u>	<u>19,859,665</u>
Expenses:						
General government	1,374,221	1,412,441	-	-	1,374,221	1,412,441
Public safety	6,274,700	6,252,861	-	-	6,274,700	6,252,861
Streets	1,479,381	1,426,590	-	-	1,479,381	1,426,590
Culture and recreation	2,522,284	2,438,756	-	-	2,522,284	2,438,756
Community development	374,335	427,769	-	-	374,335	427,769
Interest on long-term debt	97,809	141,220	-	-	97,809	141,220
Water and wastewater	-	-	4,846,996	5,054,152	4,846,996	5,054,152
Storm water drainage	-	-	600,859	580,590	600,859	580,590
Sanitary landfill	-	-	313,982	294,407	313,982	294,407
Airport	-	-	160,803	158,085	160,803	158,085
Total expenses	<u>12,122,730</u>	<u>12,099,637</u>	<u>5,922,640</u>	<u>6,087,234</u>	<u>18,045,370</u>	<u>18,186,871</u>
Increases in net assets before transfers	174,525	1,100,753	1,709,098	572,041	1,883,623	1,672,794
Transfers	(137,203)	(112,834)	137,203	112,834	-	-
Change in net assets	37,322	987,919	1,846,301	684,875	1,883,623	1,672,794
Net assets - beginning	25,146,110	24,158,191	30,955,525	30,181,049	56,101,635	54,339,240
Prior period adjustment	-	-	-	89,601	-	89,601
Net assets - ending	<u>\$ 25,183,432</u>	<u>\$ 25,146,110</u>	<u>\$ 32,801,826</u>	<u>\$ 30,955,525</u>	<u>\$ 57,985,258</u>	<u>\$ 56,101,635</u>

Business-type Activities. Revenues of the City's business-type activities were approximately \$7.6 million for the fiscal year ended September 30, 2011. Revenues increased approximately \$972,463 or 15% compared to the prior fiscal year.

Expenses for the City's business-type activities decreased approximately \$164,594 or 3%. Net Assets from business-type activities increased by \$1,846,301 or 6 percent, from \$30,955,525 to \$32,801,826, accounting for the other 98 percent of the total growth in net assets.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,458,533, a decrease of \$332,909, from the prior year. The decrease in combined fund balance is primarily attributable to use of surplus funds for capital projects. Approximately 95% of this total amount, \$8,015,503, constitutes assigned and unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it is required to be used for certain purposes. Refer to page 14 of this report for a more detailed presentation of governmental fund balances.

In the General Fund, the City budgeted for a decrease in the fund balance on a budget basis of \$916,760 but due to actual revenues being more than budgeted and actual expenditures being less than budgeted, the fund balance increased by \$342,804 during the current fiscal year. Sales tax collections increased by 8% from the previous year but the City collected 9% more than budgeted. Other actual revenues collected were also higher than budgeted: 1) current year and delinquent property taxes were collected at higher rates than projected to generate \$146,327; 2) licenses and permit fees were \$153,969 more than budgeted; and 3) service charges were also higher than budgeted by \$103,746. Expenditures were lower than budgeted mainly because capital outlays were lower.

The Capital Projects Fund has a fund balance of \$486,235, a decrease of 58 percent, all of which is restricted for specific construction projects.

The Debt Service Fund has a fund balance of \$106,908, a decrease of 15 percent, all of which is reserved for the repayment of debt.

The Special Revenue Funds have a fund balance of \$317,286, an increase of 6 percent, all of which is restricted for the special programs defined by revenue source.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the City's Enterprise Funds at the end of the year amounted to \$5,548,656. The increase in net assets was \$1,846,301. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year there was a \$481,449 increase in appropriations between the original budget and final amended budget. Following are the main components of the increase:

- \$16,000 additional appropriation in the Park department for a replacement pickup truck.

- \$20,000 additional appropriation in the Street department for a replacement pickup truck.
- \$50,000 additional appropriation for street reconstruction.
- \$63,000 additional appropriation for energy efficient window replacement at City Hall.
- \$90,000 additional appropriation in the Police department for (3) patrol vehicles.

Even with these increases in appropriations, the excess in revenues during the year was sufficient to fund these increases without reducing the budgeted General Fund fund balance.

Actual expenditures were \$10,735,586 compared to the final budgeted expenditures of \$11,127,490. The \$392,354 variance was primarily attributable to capital projects not initiated during the year, close monitoring of expenditures by departments and performing better than anticipated. Actual revenues on a budgetary basis were \$11,179,128 compared to the final budget of \$10,359,179. The \$819,949 variance was due primarily to increases in taxes (sales and property), ambulance revenue and licenses/permit fees.

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$66,289,187 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment, park facilities and infrastructure.

Major capital asset events occurring during the current fiscal year included the following:

- Bosque River Trail \$16,264;
- Storm Water Drainage improvements: \$33,306;
- Surface Water Supply Project \$207,375;
- Sewer Line Replacement \$375,273;
- Major Thoroughfare Renovation Project \$603,334;
- Approximately \$61,809 of water lines was donated by developers;
- Approximately \$102,049 of sewer lines was donated by developers; and
- Streets and sidewalks worth approximately \$190,037 were donated by developers.

CITY OF STEPHENVILLE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,323,057	\$ 2,321,250	\$ 909,278	\$ 909,278	\$ 3,232,335	\$ 3,230,528
Buildings and improvements	4,750,224	4,674,820	17,606,457	17,557,688	22,356,681	22,232,508
Equipment	6,408,502	6,299,906	2,631,963	2,506,836	9,040,465	8,806,742
Infrastructure	18,205,713	17,389,347	50,662,037	49,736,299	68,867,750	67,125,646
Construction in progress	-	-	100,249	76,315	100,249	76,315
Less: accumulated depreciation	(12,837,407)	(11,695,156)	(24,470,886)	(22,756,543)	(37,308,293)	(34,451,699)
Total capital assets	\$ 18,850,089	\$ 18,990,167	\$ 47,439,098	\$ 48,029,873	\$ 66,289,187	\$ 67,020,040

Additional information on the City's capital assets can be found on page 36 – 37 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$22,946,865. Of this amount, \$2,185,000 represents bonded debt backed by the full faith and credit of the City, \$12,900,000 represents utility revenue bonds secured by water and sewer revenues and \$146,865 represents revenue bonds secured by airport revenues, and \$7,715,000 secured by storm water drainage revenues.

OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Certificates of obligations	\$ 2,185,000	\$ 2,605,000	\$ -	\$ -	\$ 2,185,000	\$ 2,605,000
Revenue bonds payable	-	-	20,761,865	22,429,865	20,761,865	22,429,865
	<u>\$ 2,185,000</u>	<u>\$ 2,605,000</u>	<u>\$ 20,761,865</u>	<u>\$ 22,429,865</u>	<u>\$ 22,946,865</u>	<u>\$ 25,034,865</u>

The City's General Obligation, Tax and Certificates of Obligation Bond ratings are listed below.

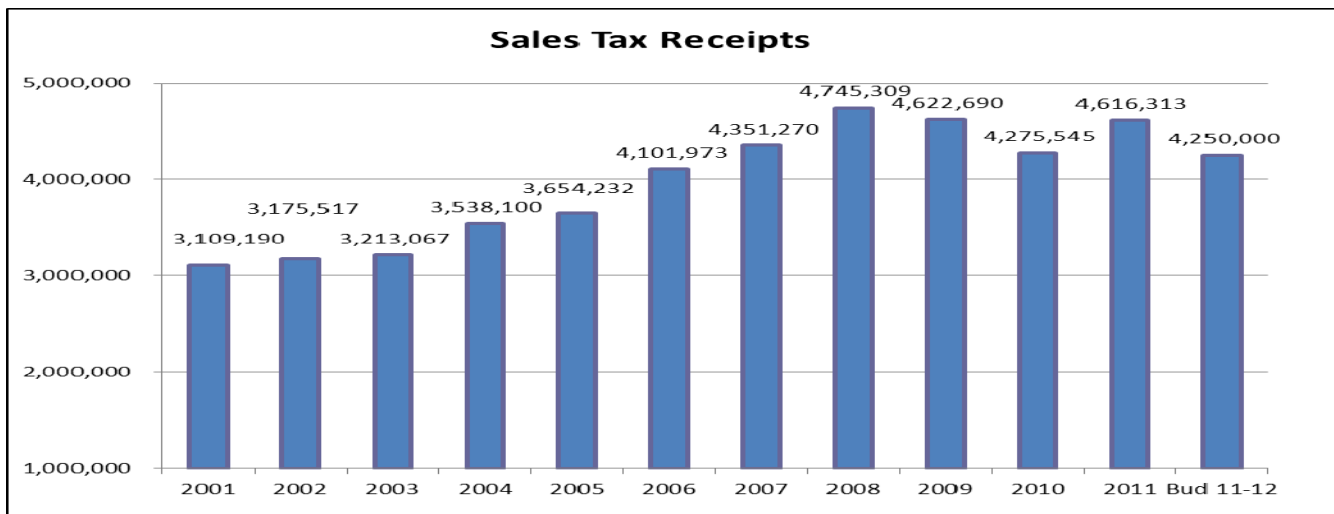
	Moody's Investors Service	Standard & Poor's
General Obligation Bonds	A3	A+

Additional information on the City's long term-debt can be found in pages 39 – 42 this report.

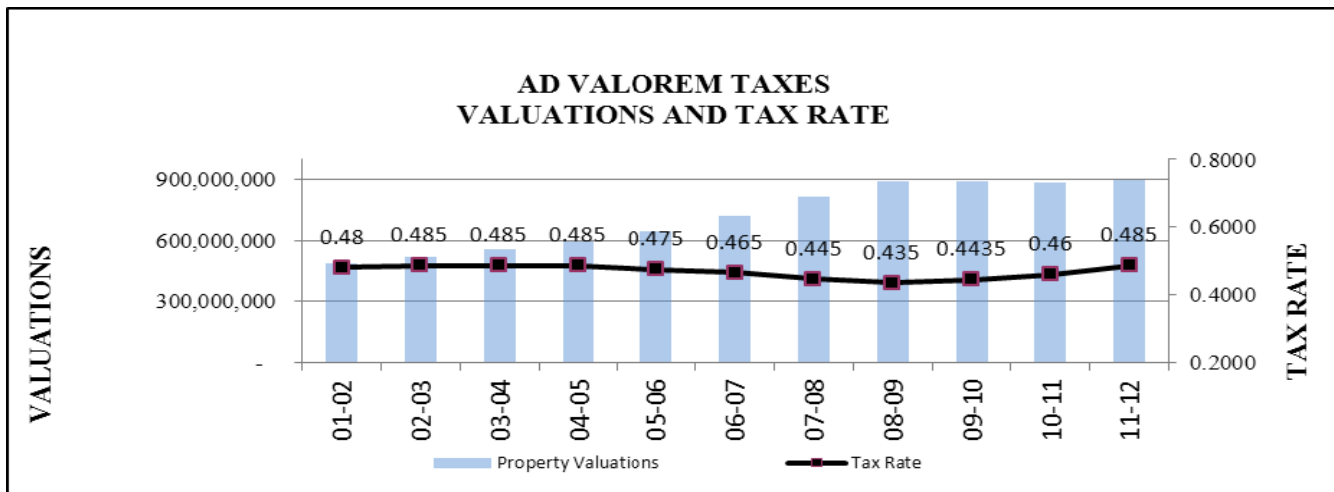
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the City of Stephenville as of the fiscal year-end was 6.50% compared to the prior year rate of 7.0% which is an indication that the local economy is starting to stabilize. This rate compares favorably with state and national unemployment levels.

Sales tax collections for 2010-2011 were up by 8% compared to the previous year and collections still exceeded budget by \$366,313. The economy seems to be on a rebound but we are still taking a conservative approach in determining estimated collections for the upcoming budget year.



The above factors were considered in preparing the City of Stephenville's budget for the 2011-12 fiscal year. Accordingly, next years' budget incorporates a \$.0250 increase in the property tax rate to \$.4850 per \$100 valuation. Certified taxable property value for 2011 is \$895 million. This is a 1.47% increase over the last year's values, or \$13 million. The largest portion of the increase, \$7 million, is new property coming onto the tax rolls and the remainder of the increase due to the reevaluation of existing property.



The City uses funds from the General Fund to supplement capital projects during the year as needs arise and where favorable unit pricing is received on such projects. Additionally, the City's Fiscal Management Practices call for the designation of any surplus of revenues over expenses at fiscal year-end as a means of providing resources for major capital projects. There are ample funds for transfers during 2012, should the City Council so desire, and still retain the minimum fund balance provisions established by the Fiscal Management Practices.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Walter G. Wood, Director of Finance, 298 West Washington, Stephenville, Texas 76401-4257 or call (254) 918-1211.

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BASIC FINANCIAL STATEMENTS

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CITY OF STEPHENVILLE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 7,751,573	\$ 4,955,292	\$ 12,706,865
Receivables (net of allowances for uncollectibles):			
Taxes	1,082,694	-	1,082,694
Accounts	373,356	1,162,189	1,535,545
Internal balances	(12,393)	12,393	-
Inventory	18,836	-	18,836
Restricted investments	-	969,392	969,392
Deferred charges	17,500	367,030	384,530
Capital assets:			
Land	2,323,057	909,278	3,232,335
Buildings and improvements	4,750,224	17,606,457	22,356,681
Machinery and equipment	6,408,502	2,631,963	9,040,465
Infrastructure/water and wastewater distribution	18,205,713	50,662,037	68,867,750
Construction in progress	-	100,249	100,249
Less: accumulated depreciation	(12,837,407)	(24,470,886)	(37,308,293)
Total capital assets	<u>18,850,089</u>	<u>47,439,098</u>	<u>66,289,187</u>
Total assets	<u>28,081,655</u>	<u>54,905,394</u>	<u>82,987,049</u>
LIABILITIES			
Accounts payable	309,414	540,324	849,738
Accrued liabilities	100,656	13,956	114,612
Accrued interest payable	10,698	210,166	220,864
Customer deposits	-	204,377	204,377
Unearned revenue	7,296	15,360	22,656
Noncurrent liabilities:			
Due within one year	510,159	1,860,774	2,370,933
Due in more than one year	<u>1,960,000</u>	<u>19,258,611</u>	<u>21,218,611</u>
Total liabilities	<u>2,898,223</u>	<u>22,103,568</u>	<u>25,001,791</u>
NET ASSETS			
Invested in capital assets, net of related debt	16,605,859	26,538,623	43,144,482
Restricted for:			
Retirement of long-term debt	103,591	714,547	818,138
Tourism	248,772	-	248,772
Child and public safety	33,524	-	33,524
Court technology	34,990	-	34,990
Unrestricted	<u>8,156,696</u>	<u>5,548,656</u>	<u>13,705,352</u>
Total net assets	<u>\$ 25,183,432</u>	<u>\$ 32,801,826</u>	<u>\$ 57,985,258</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 1,374,221	\$ 216,870	\$ 7,960	\$ 57,576	\$(1,091,815)	\$ -	\$(1,091,815)
Public safety	6,274,700	893,207	6,440	-	(5,375,053)	-	(5,375,053)
Streets	1,479,381	24,419	-	190,037	(1,264,925)	-	(1,264,925)
Culture and recreation	2,522,284	338,662	25,615	11,320	(2,146,687)	-	(2,146,687)
Community developmen	374,335	249,501	-	-	(124,834)	-	(124,834)
Interest on long-term debt	97,809	-	-	-	(97,809)	-	(97,809)
Total governmental activities	<u>12,122,730</u>	<u>1,722,659</u>	<u>40,015</u>	<u>258,933</u>	<u>(10,101,123)</u>	<u>-</u>	<u>(10,101,123)</u>
Business-type activities							
Water and wastewater	4,846,996	6,147,606	-	445,851	-	1,746,461	1,746,461
Sanitary landfill	313,982	277,985	-	-	-	(35,997)	(35,997)
Airport	160,803	76,015	5,184	82,620	-	3,016	3,016
Storm water drainage	600,859	591,326	-	-	-	(9,533)	(9,533)
Total business-type activities	<u>5,922,640</u>	<u>7,092,932</u>	<u>5,184</u>	<u>528,471</u>	<u>-</u>	<u>1,703,947</u>	<u>1,703,947</u>
Total	<u>\$ 18,045,370</u>	<u>\$ 8,815,591</u>	<u>\$ 45,199</u>	<u>\$ 787,404</u>	<u>(10,101,123)</u>	<u>1,703,947</u>	<u>(8,397,176)</u>
General revenues:							
Taxes:							
Property - general purpose					3,595,948	-	3,595,948
Property - debt service					526,519	-	526,519
Sales					4,616,312	-	4,616,312
Franchise					1,120,678	-	1,120,678
Other					363,645	-	363,645
Gain on sale of capital asset:					12,159	-	12,159
Investment earnings:					13,517	5,151	18,668
Miscellaneous					26,870	-	26,870
Transfers					(137,203)	137,203	-
Total general revenues and transfers					<u>10,138,445</u>	<u>142,354</u>	<u>10,280,799</u>
Change in net asset:					37,322	1,846,301	1,883,623
Net assets, beginning					<u>25,146,110</u>	<u>30,955,525</u>	<u>56,101,635</u>
Net assets, ending					<u>\$ 25,183,432</u>	<u>\$ 32,801,826</u>	<u>\$ 57,985,258</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Funds</u>	<u>Funds</u>
ASSETS			
Cash and investments	\$ 6,807,887	\$ 943,686	\$ 7,751,573
Receivables (net of allowance for uncollectibles):			
Taxes	980,894	101,800	1,082,694
Accounts	373,356	-	373,356
Inventory	18,836	-	18,836
Total assets	<u>8,180,973</u>	<u>1,045,486</u>	<u>9,226,459</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	194,131	111,692	305,823
Accrued liabilities	100,656	-	100,656
Due to other funds	-	12,393	12,393
Deferred revenue	338,082	7,381	345,463
Other liabilities	-	3,591	3,591
Total liabilities	<u>632,869</u>	<u>135,057</u>	<u>767,926</u>
Fund balances:			
Nonspendable	18,836	-	18,836
Restricted for:			
Retirement of long-term debt	-	106,908	106,908
Tourism	-	248,772	248,772
Child and public safety	-	33,524	33,524
Court technology	-	34,990	34,990
Assigned for:			
Right of way	1,500,000	-	1,500,000
Capital projects	1,000,000	486,235	1,486,235
Grant matching	1,000,000	-	1,000,000
Facilities	200,000	-	200,000
Economic development	50,000	-	50,000
Unassigned	3,779,268	-	3,779,268
Total fund balances	<u>7,548,104</u>	<u>910,429</u>	<u>8,458,533</u>
Total liabilities and fund balances	<u>\$ 8,180,973</u>	<u>\$ 1,045,486</u>	

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

18,850,089

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

338,167

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

(2,463,357)

Net assets of governmental activities

\$ 25,183,432

The notes to the financial statements are an integral part of this statement.

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Property	\$ 3,618,710	\$ 531,674	\$ 4,150,384
Sales	4,616,312	-	4,616,312
Franchise	1,120,678	-	1,120,678
Other	41,373	322,272	363,645
Service charges	1,076,971	-	1,076,971
Fines and forfeitures	270,178	24,897	295,075
Licenses and permits	255,269	-	255,269
Intergovernmental	132,492	15,018	147,510
Investment earnings	9,168	4,349	13,517
Miscellaneous	37,977	-	37,977
Total revenues	<u>11,179,128</u>	<u>898,210</u>	<u>12,077,338</u>
EXPENDITURES			
Current:			
General government	1,319,243	-	1,319,243
Public safety	6,069,057	15,756	6,084,813
Streets	937,367	-	937,367
Culture and recreation	1,833,813	355,955	2,189,768
Community development	367,228	-	367,228
Debt service:			
Principal	-	420,000	420,000
Interest and fiscal charges	-	98,117	98,117
Capital outlay	208,878	680,448	889,326
Total expenditures	<u>10,735,586</u>	<u>1,570,276</u>	<u>12,305,862</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>443,542</u>	<u>(672,066)</u>	<u>(228,524)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	237,443	54,609	292,052
Transfers out	(370,999)	(58,256)	(429,255)
Proceeds from sale of capital assets	27,316	-	27,316
Proceeds from insurance	5,502	-	5,502
Total other financing sources (uses)	<u>(100,738)</u>	<u>(3,647)</u>	<u>(104,385)</u>
NET CHANGE IN FUND BALANCES	342,804	(675,713)	(332,909)
FUND BALANCES, BEGINNING	<u>7,205,300</u>	<u>1,586,142</u>	<u>8,791,442</u>
FUND BALANCES, ENDING	<u>\$ 7,548,104</u>	<u>\$ 910,429</u>	<u>\$ 8,458,533</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STEPHENVILLE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Amounts reported for governmental activities in the Statement of Activities (page 13) are different because:

Net change in fund balances - total governmental funds (page 15)	\$(332,909)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	(250,867)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	174,880
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	12,219
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, this has no effect on net assets.	420,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>13,999</u>
Change in net assets of governmental activities (page 13)	<u>\$ 37,322</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Taxes	\$ 8,777,858	\$ 8,836,578	\$ 9,397,073	\$ 560,495
Service charges	973,225	973,225	1,076,971	103,746
Fines and forfeitures	250,000	290,000	270,178	(19,822)
Licenses and permits	101,300	101,300	255,269	153,969
Intergovernmental	63,600	127,176	132,492	5,316
Investment earnings	5,500	9,500	9,168	(332)
Miscellaneous	13,400	21,400	37,977	16,577
Total revenues	<u>10,184,883</u>	<u>10,359,179</u>	<u>11,179,128</u>	<u>819,949</u>
EXPENDITURES				
Current:				
General government:				
City council	54,088	62,088	54,208	7,880
City administrator	130,228	131,025	130,254	771
City secretary	88,998	89,795	84,428	5,367
Emergency management	6,850	6,850	7,360	(510)
Municipal buildings	125,791	126,588	108,809	17,779
Municipal Service Center	99,749	100,546	91,473	9,073
Financial administration and accounting	346,838	349,231	341,074	8,157
Purchasing	58,397	59,194	57,908	1,286
Tax assessment and collection	119,000	119,000	117,880	1,120
Legal counsel	66,051	86,848	83,049	3,799
Municipal court	120,000	140,000	143,880	(3,880)
Human resources	107,785	108,582	98,920	9,662
Total general government	<u>1,323,775</u>	<u>1,379,747</u>	<u>1,319,243</u>	<u>60,504</u>
Public safety:				
Fire and ambulance administration	210,198	211,793	211,849	(56)
Fire prevention and investigation	159,127	160,722	89,757	70,965
Fire suppression	1,047,353	1,160,220	1,170,059	(9,839)
Emergency medical services	1,102,257	1,013,422	989,007	24,415
Volunteer	30,169	30,169	20,006	10,163
Police administration	121,878	122,675	117,228	5,447
Police patrol	1,929,936	1,971,468	1,941,285	30,183
Police communications	419,730	426,110	423,107	3,003
Police records	186,128	192,621	190,985	1,636
Criminal investigation	608,464	588,197	513,692	74,505

(continued)

CITY OF STEPHENVILLE, TEXAS

GENERAL FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
EXPENDITURES (Continued)				
Current:				
Public safety (continued):				
Police reserve	\$ 76,633	\$ 98,430	\$ 96,010	\$ 2,420
Animal control	118,349	119,944	117,240	2,704
Public safety facility	202,671	203,468	188,832	14,636
Total public safety	6,212,893	6,299,239	6,069,057	230,182
Streets:				
Street maintenance	864,049	949,632	937,367	12,265
Total streets	864,049	949,632	937,367	12,265
Culture and recreation:				
Recreation administration	680,855	684,843	692,116	(7,273)
Park maintenance	441,168	445,156	447,369	(2,213)
Cemeteries	133,733	135,328	130,437	4,891
Library	203,321	222,614	219,169	3,445
Senior citizens center	127,363	142,660	136,197	6,463
Aquatic Center	228,685	228,685	208,525	20,160
Total culture and recreation	1,815,125	1,859,286	1,833,813	25,473
Community development:				
Community development planning	180,526	182,120	174,456	7,664
Community development inspection	177,034	178,628	148,685	29,943
Code enforcement	73,089	67,386	44,087	23,299
Total community development	430,649	428,134	367,228	60,906
Total current	10,646,491	10,916,038	10,526,708	389,330

(continued)

CITY OF STEPHENVILLE, TEXAS

GENERAL FUND

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
EXPENDITURES (Continued)				
Capital outlay:				
General government:				
Municipal buildings	\$ -	\$ 63,576	\$ 61,297	\$ 2,279
Total general government	-	63,576	61,297	2,279
Public safety:				
Police patrol	-	90,000	91,289	(1,289)
Volunteer	-	11,776	10,711	1,065
JAG grant	-	2,250	2,250	-
Total public safety	-	104,026	104,250	(224)
Streets:				
Street maintenance	-	20,000	19,705	295
Total streets	-	20,000	19,705	295
Culture and recreation:				
Park maintenance	-	17,800	17,094	706
Total culture and recreation	-	17,800	17,094	706
Community development:				
Community development planning	-	6,500	6,532	(32)
Total community development	-	6,500	6,532	(32)
Total capital outlay	-	211,902	208,878	3,024
Total expenditures	10,646,491	11,127,940	10,735,586	392,354
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(461,608)	(768,761)	443,542	1,212,303
OTHER FINANCING SOURCES (USES)				
Transfers in	206,000	206,000	237,443	31,443
Transfers out	(93,282)	(370,999)	(370,999)	-
Proceeds from sale of capital assets	7,000	17,000	27,316	10,316
Proceeds from insurance	-	-	5,502	5,502
Total other financing sources (uses)	119,718	(147,999)	(100,738)	47,261
NET CHANGE IN FUND BALANCE	(341,890)	(916,760)	342,804	1,259,564
FUND BALANCE, BEGINNING	7,205,300	7,205,300	7,205,300	-
FUND BALANCE, ENDING	\$ 6,863,410	\$ 6,288,540	\$ 7,548,104	\$ 1,259,564

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2011

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
ASSETS				
Current assets:				
Cash and investments	\$ 3,662,572	\$ 1,092,881	\$ 199,839	\$ 4,955,292
Accounts receivable - net	1,094,355	62,109	5,725	1,162,189
Due from other funds	12,393	-	-	12,393
Restricted investments	<u>717,830</u>	<u>251,562</u>	<u>-</u>	<u>969,392</u>
Total current assets	<u>5,487,150</u>	<u>1,406,552</u>	<u>205,564</u>	<u>7,099,266</u>
Noncurrent assets:				
Deferred charges	100,910	74,981	191,139	367,030
Capital assets:				
Land	163,721	-	745,557	909,278
Buildings and improvements	2,349,136	10,193,022	5,064,299	17,606,457
Equipment	1,474,535	-	1,157,428	2,631,963
Water and wastewater distribution	50,662,037	-	-	50,662,037
Construction in progress	-	-	100,249	100,249
Less: accumulated depreciation	<u>(22,198,739)</u>	<u>(508,819)</u>	<u>(1,763,328)</u>	<u>(24,470,886)</u>
Total capital assets	<u>32,450,690</u>	<u>9,684,203</u>	<u>5,304,205</u>	<u>47,439,098</u>
Total noncurrent assets	<u>32,551,600</u>	<u>9,759,184</u>	<u>5,495,344</u>	<u>47,806,128</u>
Total assets	<u>38,038,750</u>	<u>11,165,736</u>	<u>5,700,908</u>	<u>54,905,394</u>
LIABILITIES				
Current liabilities:				
Accounts payable	525,465	10,216	4,643	540,324
Accrued liabilities	12,273	-	1,683	13,956
Accrued interest	160,826	38,508	10,832	210,166
Customer deposits	203,477	-	900	204,377
Unearned revenue	-	-	15,360	15,360
Capital lease	-	-	94,460	94,460
Bonds payable	1,490,000	225,000	19,000	1,734,000
Compensated absences payable	<u>29,233</u>	<u>-</u>	<u>3,081</u>	<u>32,314</u>
Total current liabilities	<u>2,421,274</u>	<u>273,724</u>	<u>149,959</u>	<u>2,844,957</u>
Long-term liabilities:				
Capital lease	-	-	99,661	99,661
Bonds payable	11,410,000	7,490,000	127,865	19,027,865
Liability for landfill closure	<u>-</u>	<u>-</u>	<u>131,085</u>	<u>131,085</u>
Total long-term liabilities	<u>11,410,000</u>	<u>7,490,000</u>	<u>358,611</u>	<u>19,258,611</u>
Total liabilities	<u>13,831,274</u>	<u>7,763,724</u>	<u>508,570</u>	<u>22,103,568</u>
NET ASSETS				
Invested in capital assets, net of related debt	19,550,690	2,024,714	4,963,219	26,538,623
Restricted for debt service	557,004	157,543	-	714,547
Unrestricted	<u>4,099,782</u>	<u>1,219,755</u>	<u>229,119</u>	<u>5,548,656</u>
Total net assets	<u>\$ 24,207,476</u>	<u>\$ 3,402,012</u>	<u>\$ 5,192,338</u>	<u>\$ 32,801,826</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF STEPHENVILLE, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
OPERATING REVENUES				
Water sales	\$ 3,657,521	\$ -	\$ -	\$ 3,657,521
Wastewater charges	2,314,475	-	-	2,314,475
Tap and collection fees	123,212	-	-	123,212
Delinquent charges	29,792	5,656	-	35,448
Gate charges	-	-	276,833	276,833
Hanger rental	-	-	69,729	69,729
Storm water drainage fees	-	585,670	-	585,670
Other service charges	22,606	-	7,438	30,044
Total operating revenues	<u>6,147,606</u>	<u>591,326</u>	<u>354,000</u>	<u>7,092,932</u>
OPERATING EXPENSES				
Personnel services	992,276	-	130,255	1,122,531
Contractual services	1,040,380	-	21,359	1,061,739
Utilities	603,898	-	31,127	635,025
Repairs and maintenance	268,218	30,321	30,497	329,036
Other	201,244	201	37,878	239,323
Depreciation	1,256,933	254,826	202,584	1,714,343
Total operating expenses	<u>4,362,949</u>	<u>285,348</u>	<u>453,700</u>	<u>5,101,997</u>
OPERATING INCOME (LOSS)	1,784,657	305,978	(99,700)	1,990,935
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	3,289	1,746	116	5,151
Interest and fiscal charges on debt	(543,289)	(315,511)	(21,085)	(879,885)
Intergovernmental	-	-	5,184	5,184
Gain on sale of assets	59,242	-	-	59,242
Total nonoperating revenues (expenses)	<u>(480,758)</u>	<u>(313,765)</u>	<u>(15,785)</u>	<u>(810,308)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,303,899	(7,787)	(115,485)	1,180,627
CAPITAL CONTRIBUTIONS	445,851	-	82,620	528,471
TRANSFERS IN	58,256	-	316,390	374,646
TRANSFERS OUT	<u>(237,443)</u>	<u>-</u>	<u>-</u>	<u>(237,443)</u>
CHANGE IN NET ASSETS	1,570,563	(7,787)	283,525	1,846,301
TOTAL NET ASSETS, BEGINNING	<u>22,636,913</u>	<u>3,409,799</u>	<u>4,908,813</u>	<u>30,955,525</u>
TOTAL NET ASSETS, ENDING	<u>\$ 24,207,476</u>	<u>\$ 3,402,012</u>	<u>\$ 5,192,338</u>	<u>\$ 32,801,826</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 6,068,687	\$ 595,452	\$ 370,849	\$ 7,034,988
Cash payments to employees	(997,075)	-	(131,056)	(1,128,131)
Cash payments to suppliers for goods and services	(2,023,285)	(30,306)	(114,342)	(2,167,933)
Cash provided by operating activities	<u>3,048,327</u>	<u>565,146</u>	<u>125,451</u>	<u>3,738,924</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund receivables repaid by other funds	2,129,690	-	-	2,129,690
Cash received from operating grant	-	-	5,184	5,184
Transfers from other funds	58,256	-	-	58,256
Transfers to other funds	(237,443)	-	-	(237,443)
Cash provided by noncapital financing activities	<u>1,950,503</u>	<u>-</u>	<u>5,184</u>	<u>1,955,687</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal payments on capital lease	-	-	(170,619)	(170,619)
Principal payments on bonds	(1,435,000)	(215,000)	(18,000)	(1,668,000)
Interest and fiscal charges on debt	(535,457)	(312,315)	(29,155)	(876,927)
Grant match for capital grant	-	-	(191,148)	(191,148)
Grant proceeds restricted to capital acquisition	281,993	-	-	281,993
Transfers from other funds for capital acquisition	-	-	316,390	316,390
Proceeds from sale of capital assets	59,242	-	-	59,242
Acquisition and construction of capital assets	(743,708)	(33,306)	(33,083)	(810,097)
Cash used by capital and related financing activities	<u>(2,372,930)</u>	<u>(560,621)</u>	<u>(125,615)</u>	<u>(3,059,166)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	<u>3,289</u>	<u>1,746</u>	<u>116</u>	<u>5,151</u>
Cash provided by investing activities	<u>3,289</u>	<u>1,746</u>	<u>116</u>	<u>5,151</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,629,189	6,271	5,136	2,640,596
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,751,213</u>	<u>1,338,172</u>	<u>194,703</u>	<u>3,284,088</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 4,380,402</u>	<u>\$ 1,344,443</u>	<u>\$ 199,839</u>	<u>\$ 5,924,684</u>
(Including \$717,830 for the Water and Wastewater fund and \$251,562 for the Storm Water Drainage fund in restricted investments)				

(continued)

CITY OF STEPHENVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities - Enterprise Funds			
	Water and Wastewater	Storm Water Drainage	Other Funds	Total
RECONCILIATION OF OPERATING INCOME TO				
NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 1,784,657	\$ 305,978	\$(99,700)	\$ 1,990,935
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,256,933	254,826	202,584	1,714,343
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(70,755)	4,126	1,389	(65,240)
Increase (decrease) in accounts payable	90,455	216	3,049	93,720
Increase (decrease) in accrued liabilities	(3,371)	-	2,573	(798)
Increase (decrease) in unearned revenue	-	-	15,360	15,360
Increase (decrease) in customer deposits	(8,164)	-	100	(8,064)
Increase (decrease) in compensated absences	(1,428)	-	96	(1,332)
Total adjustments	<u>1,263,670</u>	<u>259,168</u>	<u>225,151</u>	<u>1,747,989</u>
Net cash provided by operating activities	<u>\$ 3,048,327</u>	<u>\$ 565,146</u>	<u>\$ 125,451</u>	<u>\$ 3,738,924</u>
NONCASH INVESTING, CAPITAL, AND				
FINANCING ACTIVITIES				
Contributions of capital assets	<u>\$ 163,858</u>	<u>\$ -</u>	<u>\$ 82,620</u>	<u>\$ 246,478</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STEPHENVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Stephenville, Texas, was incorporated August 6, 1989, and operates as a home rule City. The City operates under a mayor-council form of government and provides the following services as authorized by its charter, general government, public safety (police, fire and EMS), streets, community development (planning and zoning, licensing, permitting and inspection), water and wastewater system, culture and recreation, airport and sanitary landfill.

A. Reporting Entity

The accompanying financial statements comply with the provisions of the GASB Statements No. 14 and 39, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

B. Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, charges for services, fines and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary fund type) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The **General Fund** – is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The **Water and Wastewater Fund** – is used to account for the activities necessary for the provisions of water and wastewater services.

The **Storm Water Drainage Fund** – is used to account for the activities necessary for the provisions of storm water drainage services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

For purpose of presenting the proprietary fund cash flow statement, cash and cash equivalents include cash demand and time deposits and investments with a maturity date within three months of the date acquired by the City.

Investments

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (b) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1) pledged with third-party selected or approved by the City, and placed through a primary government securities dealer.

Investments maturing within one year of date of purchase are stated at cost or amortized cost. All other investments are stated at fair value, which is based on quoted market prices.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Inventories

All inventories are valued at cost (first-in, first-out method). Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets

Certain bond proceeds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Airport improvements	40
Buildings	20 to 40
Waterworks and sanitation systems	33 1/3
Infrastructure	20
Machinery and equipment	7 to 10

Compensated Absences

The City permits employees to accumulate earned but unused vacation pay benefits. Certain employees previously covered by civil service policies also have carried forward unused sick leave benefits. No liability is reported for unpaid accumulated sick leave for the remaining employees. Vacation pay is accrued when incurred in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. A liability for these amounts is reported in governmental funds only if they have matured (for example, as a result of employee resignations and retirements).

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effect interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Fund Balance Classification (Continued)

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(2,463,357) difference are as follows:

General obligations	\$(2,185,000)
Accrued interest payable	(10,698)
Compensated absences	(225,929)
Deferred charges	17,500
Retainage payable	(59,230)
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$(2,463,357)</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$(250,867) difference are as follows:

Capital outlay	\$ 941,602
Depreciation expense	(1,192,469)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$(250,867)</u>

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$12,219 difference are as follows:

Property taxes	\$(27,917)
Ambulance charges for services	3,080
Municipal court fines	<u>37,056</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 12,219</u>

(continued)

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states that, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$13,999 difference are as follows:

Accrued interest	\$ 2,808
Amortization of deferred charges	(2,500)
Compensated absences	<u>13,691</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 13,999</u>

Another element of that reconciliation states that, “The net effect of various miscellaneous transactions involving capital assets is to increase net assets.” The details of this \$174,880 difference are as follows:

Capital contributions	\$ 190,037
Disposals of capital assets	<u>(15,157)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 174,880</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund, Special Revenue Funds, and the Debt Service Fund. All annual appropriations lapse at the end of each fiscal year. Budgets are adopted for the proprietary funds annually only as a management tool. There are no legally mandated budgetary constraints for the proprietary funds.

In May of each year, budget preparation packages are distributed to all City agencies. The agencies of the City submit requests for appropriation to the City Administrator before June 15 so that a budget may be prepared. The budget is prepared by department and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. During August, the proposed budget is presented to the City Council for review. The City Council holds one public hearing before August 31 and may add to, subtract from, or change appropriations. Any changes in the budget must be within the revenue and reserves estimated as available by the City Administrator, or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

(continued)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgets (Continued)

The appropriated budget is prepared by fund, function and department. The City's management may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplementary budget appropriations during the year.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year.

B. Expenditures over Appropriations

Expenditures exceeded appropriations in the General Fund in various departments. The following overruns were funded by unexpected revenues.

General government:		
Emergency management	\$	510
Municipal court		3,880
Public safety:		
Fire and ambulance administration		56
Fire suppression		9,839
Culture and recreation:		
Recreation administration		7,273
Park maintenance		2,213
Capital outlay:		
Police patrol		1,289
Community development planning		32

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Substantially all deposits and investments are maintained in consolidated cash and investment accounts. Interest income relating to consolidated deposits and investments is allocated to the individual funds monthly based on each fund's prorate share of total consolidated cash, deposits and investments.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Legal provisions generally permit the City to invest in certificates of deposit, repurchase agreements, public funds investment pools, direct obligations of the United States of America or its subdivisions and state and local government securities. During the year ended September 30, 2011, the City did not own any types of securities other than those permitted by statute.

As of September 30, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Tex Pool	\$ 7,792,775	44
TexStar	<u>5,175,260</u>	40
Total fair value	<u>\$ 12,968,035</u>	
Portfolio weighted average maturity (days)		42

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Lehman Brothers, Inc. and Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accountants. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. The fund is rated AAAm by Standard & Poor's.

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act. The fund is rated AAAm by Standard & Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund fulfills all requirements of the Texas Public Funds Investment Act for local government investment pools. TexSTAR is administered by First Southwest Asset Management, Inc. and JP Morgan Chase.

The fair value of the City's position in these pools is the same as the value of the pool shares.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by limiting the weighted average maturity of its investment portfolios to a maximum of 180 days.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2011, the City's entire deposit balance was collateralized with securities held by the pledging financial institution or covered by FDIC insurance.

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds		Enterprise Funds			
	General	Nonmajor Funds	Water and Wastewater	Storm Water Drainage	Nonmajor Funds	Total
Receivables:						
Accounts:						
Customers	\$ -	\$ -	\$ 1,504,448	\$ 71,611	\$ 5,725	\$ 1,581,784
Ambulance	608,659	-	-	-	-	608,659
Municipal court fines	1,240,235	-	-	-	-	1,240,235
Intergovernmental	1,978	-	2,340	-	-	4,318
Other	43,571	-	3,521	-	-	47,092
Taxes:						
Property	117,009	18,945	-	-	-	135,954
Sales	876,004	-	-	-	-	876,004
Occupancy	-	89,503	-	-	-	89,503
Other	34,911	1,323	-	-	-	36,234
Gross receivables	2,922,367	109,771	1,510,309	71,611	5,725	4,619,783
Less: allowance for uncollectibles	(1,568,117)	(7,971)	(415,954)	(9,502)	-	(2,001,544)
Net total receivables	\$ 1,354,250	\$ 101,800	\$ 1,094,355	\$ 62,109	\$ 5,725	\$ 2,618,239

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 50,402	\$ -
Delinquent property taxes receivable (debt service)	7,381	-
Ambulance charges for services	63,008	-
Municipal court fines	217,376	-
Other	<u>-</u>	<u>7,296</u>
Total governmental funds	<u>\$ 338,167</u>	<u>\$ 7,296</u>

C. Property Tax Calendar

Property taxes assessed on property valuations as of January 1 each year are levied on the subsequent October 1. Property taxes attach as an enforceable lien on property at the time levied. Property taxes are considered due when levied and become delinquent on the following February 1. On this date, penalties and interest may be assessed by the City.

D. Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,321,250	\$ 1,807	\$ -	\$ 2,323,057
Total assets not being depreciated	<u>2,321,250</u>	<u>1,807</u>	<u>-</u>	<u>2,323,057</u>
Capital assets, being depreciated:				
Buildings and improvements	4,674,820	75,404	-	4,750,224
Machinery and equipment	6,299,906	173,971	65,375	6,408,502
Infrastructure	<u>17,389,347</u>	<u>816,366</u>	<u>-</u>	<u>18,205,713</u>
Total capital assets being depreciated	<u>28,364,073</u>	<u>1,065,741</u>	<u>65,375</u>	<u>29,364,439</u>
Accumulated depreciation:				
Buildings and improvements	1,151,047	102,050	-	1,253,097
Machinery and equipment	4,144,239	351,065	50,218	4,445,086
Infrastructure	<u>6,399,870</u>	<u>739,354</u>	<u>-</u>	<u>7,139,224</u>
Total accumulated depreciation	<u>11,695,156</u>	<u>1,192,469</u>	<u>50,218</u>	<u>12,837,407</u>
Total capital assets being depreciated, net	<u>16,668,917</u>	<u>(126,728)</u>	<u>15,157</u>	<u>16,527,032</u>
Governmental activities capital assets, net	<u>\$ 18,990,167</u>	<u>\$ (124,921)</u>	<u>\$ 15,157</u>	<u>\$ 18,850,089</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 909,278	\$ -	\$ -	\$ 909,278
Construction in progress	76,315	100,249	76,315	100,249
Total assets not being depreciated	985,593	100,249	76,315	1,009,527
Capital assets, being depreciated:				
Buildings and improvements	17,557,688	48,769	-	17,606,457
Machinery and equipment	2,506,836	125,127	-	2,631,963
Water and wastewater system	49,736,299	925,738	-	50,662,037
Total capital assets being depreciated	69,800,823	1,099,634	-	70,900,457
Accumulated depreciation:				
Buildings and improvements	1,794,748	399,264	-	2,194,012
Machinery and equipment	1,552,857	166,820	-	1,719,677
Water and wastewater system	19,408,938	1,148,259	-	20,557,197
Total accumulated depreciation	22,756,543	1,714,343	-	24,470,886
Total capital assets being depreciated, net	47,044,280	(614,709)	-	46,429,571
Business-type activities capital assets, net	\$ 48,029,873	\$ (514,460)	\$ 76,315	\$ 47,439,098

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 59,231
Public safety	200,186
Streets	543,246
Culture and recreation	382,288
Community development	7,518
Total depreciation expense - governmental activities	\$ 1,192,469
Business-type activities:	
Water and wastewater	\$ 1,256,933
Storm water drainage	254,826
Landfill	105,404
Airport	97,180
Total depreciation expense - business-type activities	\$ 1,714,343

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2011, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and wastewater	Capital projects	\$ <u>12,393</u>
Total		\$ <u><u>12,393</u></u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers during the year ended September 30, 2011, are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Nonmajor enterprise	General	\$ 316,390
Nonmajor governmental	General	54,609
Water and wastewater fund	Nonmajor governmental	58,256
General	Water and wastewater	<u>237,443</u>
Total interfund transfers		\$ <u><u>666,698</u></u>

The General Fund paid \$316,390 and \$54,609, respectively, to nonmajor Enterprise Funds and nonmajor Governmental Funds to finance capital acquisitions. The transfer in the amount of \$237,443 was paid from the Water and Wastewater Fund to the General Fund for payments in lieu of taxes. The transfer in the amount of \$58,256 was paid from nonmajor Governmental Funds to the Water and Wastewater Fund to return amounts previously transferred for capital acquisitions.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt

Changes in Long-term Liabilities

Long-term liability activity from the year ended September 30, 2011, was as follows:

	Balance 09/30/10	Additions	Reductions	Balance 09/30/11	Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 2,605,000	\$ -	\$ 420,000	\$ 2,185,000	\$ 225,000
Retainage payable	123,321	745	64,836	59,230	59,230
Compensated absences payable	<u>239,620</u>	<u>225,929</u>	<u>239,620</u>	<u>225,929</u>	<u>225,929</u>
Total governmental activities	\$ <u>2,967,941</u>	\$ <u>226,674</u>	\$ <u>724,456</u>	\$ <u>2,470,159</u>	\$ <u>510,159</u>
<u>Business-type activities:</u>					
Revenue bonds/certificates of obligation	\$ 22,429,865	\$ -	\$ 1,668,000	\$ 20,761,865	\$ 1,734,000
Capital lease	364,740	-	170,619	194,121	94,460
Estimated landfill closure and postclosure costs	127,615	3,470	-	131,085	-
Compensated absences payable	<u>33,646</u>	<u>32,314</u>	<u>33,646</u>	<u>32,314</u>	<u>32,314</u>
Total business-type activities	\$ <u>22,955,866</u>	\$ <u>35,784</u>	\$ <u>1,872,265</u>	\$ <u>21,119,385</u>	\$ <u>1,860,774</u>

The General Fund is generally used to liquidate compensated absences for governmental activities.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities of governmental activities and to refund previous issues. General obligation bonded debt of the City is as follows:

Governmental activities:

\$1,325,000 Combination Tax and Revenue Certificates of Obligation - Series 2008, principal due annually in series through 2033, interest due semi-annually at 4.06%.	\$ 695,000
\$1,500,000 Combination Tax and Revenue Certificates of Obligation - Series 2009, principal due annually in series through 2019, interest due semi-annually at 3.85%.	<u>1,490,000</u>
	<u>\$ 2,185,000</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Revenue Bonds

The City also issues revenue bonds to finance business-type activities, where it pledges net income from service revenue to repay debt. Revenue bonds outstanding as of September 30, 2011, are as follows:

Business-type activities:

\$5,500,000 Utility System Revenue Bonds - Series 2001, principal due annually in series through 2016, interest due semi-annually at 4.59%.	\$ 3,895,000
\$1,150,000 Combination Tax and Revenue Certificates of Obligation - Series 2002, principal due annually in series through 2012, interest due semi-annually at 4.45%.	140,000
\$1,600,000 Combination Tax Revenue Certificates of Obligation, Series 2003B, principal due annually in series through 2018, interest due semi-annually at 3.5%.	785,000
\$4,975,000 Combination Tax Revenue Refunding Bonds - Series 2003A, principal due annually in series through 2013, interest due semi-annually at 2.75%.	840,000
\$275,000 Combination Tax and Revenue Certificates of Obligation, Series 2003, principal due annually in Series through 2021, interest due semi-annually at 4.125%.	146,865
\$7,160,000 Combination Tax Revenue Bonds - Series 2004, principal due annually in series through 2019, interest due semi-annually at 4.45%.	6,130,000
\$2,000,000 Certificate of Obligation Bonds - Series 2006, principal due annually in series through 2018, interest due semi-annually at 3.77%.	1,110,000
\$4,300,000 Combination Tax Revenue Certificates of Obligation, Series 2006A, principal due annually in series through 2027, interest due semi-annually at 3.92%.	3,690,000
\$4,130,000 Combination Tax Revenue Certificates of Obligation, Series 2008, principal due annually in series through 2033, interest due semi-annually at 4.06%.	<u>4,025,000</u>
Total Revenue Bonds	<u>\$ 20,761,865</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Debt Service Requirements

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 225,000	\$ 81,078	\$ 306,078
2013	230,000	71,967	301,967
2014	240,000	62,557	302,557
2015	250,000	52,747	302,747
2016	260,000	42,735	302,735
2017-2019	<u>980,000</u>	<u>57,558</u>	<u>1,037,558</u>
Total	<u>\$ 2,185,000</u>	<u>\$ 368,642</u>	<u>\$ 2,553,642</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,734,000	\$ 797,473	\$ 2,531,473
2013	1,805,000	728,071	2,533,071
2014	1,866,000	664,558	2,530,558
2015	1,941,000	584,225	2,525,225
2016	2,027,000	502,904	2,529,904
2017-2021	6,373,865	1,499,306	7,873,171
2022-2026	1,805,000	833,490	2,638,490
2027-2031	2,200,000	435,425	2,635,425
2032-2033	<u>1,010,000</u>	<u>41,412</u>	<u>1,051,412</u>
Total	<u>\$ 20,761,865</u>	<u>\$ 6,086,864</u>	<u>\$ 26,848,729</u>

Capital Lease

The City has entered into a lease agreement as lessee for financing the acquisition of equipment for landfill maintenance. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Landfill</u>
Asset:	
Machinery and equipment	\$ 794,081
Less: accumulated depreciation	<u>424,703</u>
Total	<u>\$ 369,378</u>

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Capital Lease (Continued)

The future minimum lease obligation and the net present value of the minimum lease payments as of September 30, 2011, were as follows:

<u>Fiscal Year Ending</u> <u>September 30,</u>	
2012	\$ 105,163
2013	<u>105,163</u>
Total minimum lease payments	210,326
Less: amount representing interest	<u>16,205</u>
Present value of minimum lease payments	<u>\$ 194,121</u>

G. Contingent Arbitrage Liabilities

The City has invested a portion of revenue bond proceeds as a reserve for the retirement of the bonds. Any excess of interest revenue earned on invested proceeds over interest paid on the bonds must be rebated to the federal government every five years.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and other claims of various nature. The City participates in the Texas Municipal League Intergovernmental Risk Pool. As an insured, the City is not obligated to reimburse the pool for losses. The City has not had any significant reductions in insurance coverage, nor have insurance settlements for the last three fiscal years exceeded insurance coverage. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the City's financial statements.

B. Commitments and Contingencies

The City is defendant in lawsuits occurring in the normal course of business. Although the outcome of these matters is not presently determinable, in the opinion of the City's attorney, their resolution will not have a material adverse effect on the financial condition of the City.

(continued)

V. OTHER INFORMATION (Continued)

B. Commitments and Contingencies (Continued)

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Municipal Solid Waste Landfill Closure and Post Closure Costs

The City has constructed a Type IV sanitary landfill, which began operations on December 1, 1995. This facility is permitted to accept only brush and/or construction demolition wastes and rubbish free of household wastes.

State and federal laws and regulations require the City to place a final cover on the landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for a period of five years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City will report a portion of these closure and post closure costs as an operating expense in each period based on landfill capacity used to date. Estimated closure and 5-year post closure costs are approximately \$388,240. The landfill site has an estimated net capacity of 584,974 cubic yards and is expected to be closed within the next 10 years; approximately 34% of the landfill was used at year-end. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City has received written authorization from the state that no annual contributions are required, thus the intent of the City is to fund the required expenses as incurred.

D. Retirement Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Plan Description (Continued)

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>
Employee deposit rate	6.0%	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating	70% of CPI repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Contributions (Continued)

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/09	\$ 934,953	\$ 934,953	100%	-
09/30/10	1,068,923	1,068,923	100%	-
09/30/11	1,102,965	1,102,965	100%	-

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Actuarial Valuation Date	12/31/08	12/31/09	12/31/10 - prior to restructuring	12/31/10 - restructured
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	29 years; closed period	28 years; closed period	27 years; closed period	27 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years	30 years
Asset valuation method	Amortized cost	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:				
Investment rate of return*	7.5%	7.5%	7.5%	7.0%
Projected salary increases*	varies by age and service	varies by age and service	varies by age and service	varies by age and service
*Includes inflation at	3.0%	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%	2.1%

(continued)

V. OTHER INFORMATION (Continued)

D. Retirement Plan (Continued)

Contributions (Continued)

In June, 2011, SSB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects of TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The following schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/2008	\$ 14,809,934	\$ 21,450,591	69.0%	\$ 6,640,657	\$ 5,773,061	115.0%
12/31/2009	16,141,135	23,087,454	69.9%	6,946,319	6,040,379	115.0%
12/31/2010 ¹	17,441,452	24,306,907	71.8%	6,865,455	6,150,305	111.6%
12/31/2010 ²	23,356,321	28,698,942	81.4%	5,342,621	6,150,305	86.9%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

E. Other Postemployment Benefits

Supplemental Death Benefits Fund (SDBF)

The City also participates in the cost sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

(continued)

V. OTHER INFORMATION (Continued)

E. Other Postemployment Benefits (Continued)

Supplemental Death Benefits Fund (SDBF) (Continued)

The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2011, 2010 and 2009 were \$2,487, \$2,455 and \$2,964, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates

(Retiree-only portion of the rate)

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2009	0.05%	0.05%	100%
2010	0.04%	0.04%	100%
2011	0.04%	0.04%	100%

F. Change in Accounting Principles

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

G. Subsequent Events

On October 11, 2011, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2011, in the amount of \$4,000,000 maturing February 15, 2031 with an average interest rate of 3.2%. The bonds were issued to construct a fire station and improve roads.

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**COMBINING FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for specific revenue that is legally restricted to expenditures for particular purposes.

Hotel/Motel Occupancy Tax – This fund is used to account for hotel/motel occupancy tax revenue to be used for enhancing and promoting tourism and convention activity for the benefit of the hotel industry.

Child Safety – This fund is used to account for court costs used to operate a City school crossing guard program, or programs designated to enhance child safety, health, or nutrition; including child abuse prevention and intervention and drug and alcohol abuse prevention.

Public Safety – This fund is used to account for court costs used to promote various public safety programs.

Court Technology – This fund is used to account for court costs used to maintain technological enhancements for the municipal court.

The ***Capital Projects Fund*** is used to account for financial resources to be used for the acquisition or construction of general major capital facilities. Financing is provided primarily by the sale of general obligation bonds and developer contributions.

The ***Debt Service Fund*** is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources.

CITY OF STEPHENVILLE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	Special Revenue						Total Nonmajor Governmental Funds
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Court Technology	Capital Projects	Debt Service	
ASSETS							
Cash and investments	\$ 225,868	\$ 12,465	\$ 24,650	\$ 34,990	\$ 543,721	\$ 101,992	\$ 943,686
Receivables (net of allowance for uncollectibles):							
Taxes	<u>89,503</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,297</u>	<u>101,800</u>
Total assets	<u>\$ 315,371</u>	<u>\$ 12,465</u>	<u>\$ 24,650</u>	<u>\$ 34,990</u>	<u>\$ 543,721</u>	<u>\$ 114,289</u>	<u>\$ 1,045,486</u>
LIABILITIES							
Accounts payable	66,599	-	-	-	45,093	-	111,692
Due to other funds	-	-	-	-	12,393	-	12,393
Deferred revenue	-	-	-	-	-	7,381	7,381
Other liabilities	<u>-</u>	<u>-</u>	<u>3,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,591</u>
Total liabilities	<u>66,599</u>	<u>-</u>	<u>3,591</u>	<u>-</u>	<u>57,486</u>	<u>7,381</u>	<u>135,057</u>
FUND BALANCES							
Restricted for:							
Retirement of long-term debt	-	-	-	-	-	106,908	106,908
Tourism	248,772	-	-	-	-	-	248,772
Child and public safety	-	12,465	21,059	-	-	-	33,524
Court technology	-	-	-	34,990	-	-	34,990
Assigned for:							
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>486,235</u>	<u>-</u>	<u>486,235</u>
Total fund balances	<u>248,772</u>	<u>12,465</u>	<u>21,059</u>	<u>34,990</u>	<u>486,235</u>	<u>106,908</u>	<u>910,429</u>
 Total liabilities and fund balances	<u>\$ 315,371</u>	<u>\$ 12,465</u>	<u>\$ 24,650</u>	<u>\$ 34,990</u>	<u>\$ 543,721</u>	<u>\$ 114,289</u>	<u>\$ 1,045,486</u>

CITY OF STEPHENVILLE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Special Revenue						Total Nonmajor Governmental Funds
	Hotel/Motel Occupancy Tax	Child Safety	Public Safety	Court Technology	Capital Projects	Debt Service	
REVENUES							
Taxes:							
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 531,674	\$ 531,674
Other	322,272	-	-	-	-	-	322,272
Fines and forfeitures	-	10,871	3,372	10,654	-	-	24,897
Intergovernmental	-	-	3,698	-	11,320	-	15,018
Investment earnings	451	-	-	-	3,814	84	4,349
Total revenues	<u>322,723</u>	<u>10,871</u>	<u>7,070</u>	<u>10,654</u>	<u>15,134</u>	<u>531,758</u>	<u>898,210</u>
EXPENDITURES							
Current:							
Public safety	-	5,602	10,154	-	-	-	15,756
Culture and recreation	355,955	-	-	-	-	-	355,955
Debt service:							
Principal	-	-	-	-	-	420,000	420,000
Interest and fiscal charges	-	-	-	-	-	98,117	98,117
Capital outlay	-	-	-	-	680,448	-	680,448
Total expenditures	<u>355,955</u>	<u>5,602</u>	<u>10,154</u>	<u>-</u>	<u>680,448</u>	<u>518,117</u>	<u>1,570,276</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(33,232)</u>	<u>5,269</u>	<u>(3,084)</u>	<u>10,654</u>	<u>(665,314)</u>	<u>13,641</u>	<u>(672,066)</u>
OTHER FINANCING SOURCES							
Transfers in	-	-	-	-	54,609	-	54,609
Transfers out	-	-	-	-	(58,256)	-	(58,256)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,647)</u>	<u>-</u>	<u>(3,647)</u>
NET CHANGE IN FUND BALANCES	<u>(33,232)</u>	<u>5,269</u>	<u>(3,084)</u>	<u>10,654</u>	<u>(668,961)</u>	<u>13,641</u>	<u>(675,713)</u>
FUND BALANCES, BEGINNING	<u>282,004</u>	<u>7,196</u>	<u>24,143</u>	<u>24,336</u>	<u>1,155,196</u>	<u>93,267</u>	<u>1,586,142</u>
FUND BALANCES, ENDING	<u>\$ 248,772</u>	<u>\$ 12,465</u>	<u>\$ 21,059</u>	<u>\$ 34,990</u>	<u>\$ 486,235</u>	<u>\$ 106,908</u>	<u>\$ 910,429</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

HOTEL/MOTEL OCCUPANCY TAX FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Taxes - other	\$ 280,000	\$ 322,272	\$ 42,272
Investment income	<u>500</u>	<u>451</u>	<u>(49)</u>
Total revenues	<u>280,500</u>	<u>322,723</u>	<u>42,223</u>
EXPENDITURES			
Current:			
Culture and recreation	<u>330,000</u>	<u>355,955</u>	<u>(25,955)</u>
Total culture and recreation	<u>330,000</u>	<u>355,955</u>	<u>(25,955)</u>
Total expenditures	<u>330,000</u>	<u>355,955</u>	<u>(25,955)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(49,500)	(33,232)	16,268
FUND BALANCE, BEGINNING	<u>282,004</u>	<u>282,004</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 232,504</u>	<u>\$ 248,772</u>	<u>\$ 16,268</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

CHILD SAFETY FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Fines and forfeitures	\$ <u>4,500</u>	\$ <u>10,871</u>	\$ <u>6,371</u>
Total revenues	<u>4,500</u>	<u>10,871</u>	<u>6,371</u>
EXPENDITURES			
Current:			
Public safety	<u>5,602</u>	<u>5,602</u>	<u>-</u>
Total public safety	<u>5,602</u>	<u>5,602</u>	<u>-</u>
Total expenditures	<u>5,602</u>	<u>5,602</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(<u>1,102</u>)	<u>5,269</u>	<u>6,371</u>
FUND BALANCE, BEGINNING	<u>7,196</u>	<u>7,196</u>	<u>-</u>
FUND BALANCE, ENDING	\$ <u><u>6,094</u></u>	\$ <u><u>12,465</u></u>	\$ <u><u>6,371</u></u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

PUBLIC SAFETY FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Fines and forfeitures	\$ -	\$ 3,372	\$ 3,372
Intergovernmental	<u>3,700</u>	<u>3,698</u>	<u>(2)</u>
Total revenues	<u>3,700</u>	<u>7,070</u>	<u>3,370</u>
EXPENDITURES			
Current:			
Public safety	<u>11,092</u>	<u>10,154</u>	<u>938</u>
Total public safety	<u>11,092</u>	<u>10,154</u>	<u>938</u>
Total expenditures	<u>11,092</u>	<u>10,154</u>	<u>938</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(7,392)	(3,084)	4,308
FUND BALANCE, BEGINNING	<u>24,143</u>	<u>24,143</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 16,751</u>	<u>\$ 21,059</u>	<u>\$ 4,308</u>

CITY OF STEPHENVILLE, TEXAS

SPECIAL REVENUE FUND

COURT TECHNOLOGY FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Fines and forfeitures	\$ <u>4,000</u>	\$ <u>10,654</u>	\$ <u>6,654</u>
Total revenues	<u>4,000</u>	<u>10,654</u>	<u>6,654</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,000	10,654	6,654
FUND BALANCE, BEGINNING	<u>24,336</u>	<u>24,336</u>	<u>-</u>
FUND BALANCE, ENDING	\$ <u>28,336</u>	\$ <u>34,990</u>	\$ <u>6,654</u>

CITY OF STEPHENVILLE, TEXAS

DEBT SERVICE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Taxes - property	\$ 517,216	\$ 531,674	\$ 14,458
Investment earnings	<u>100</u>	<u>84</u>	<u>(16)</u>
Total revenues	<u>517,316</u>	<u>531,758</u>	<u>14,442</u>
EXPENDITURES			
Debt service:			
Principal	420,000	420,000	-
Interest and fiscal charges	<u>97,316</u>	<u>98,117</u>	<u>(801)</u>
Total debt service	<u>517,316</u>	<u>518,117</u>	<u>(801)</u>
Total expenditures	<u>517,316</u>	<u>518,117</u>	<u>(801)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	13,641	13,641
FUND BALANCE, BEGINNING	<u>93,267</u>	<u>93,267</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 93,267</u>	<u>\$ 106,908</u>	<u>\$ 13,641</u>

NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the City has decided that periodic determination of net income is appropriate for accountability purposes.

Sanitary Landfill – This fund is used to account for solid waste collection and disposal services provided to the residents of the City.

Airport – This fund is used to account for municipal airport services and to support air transportation and charter services.

CITY OF STEPHENVILLE, TEXAS

COMBINING BALANCE SHEET NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2011

	Sanitary Landfill	Airport	Total
ASSETS			
Current assets:			
Cash and investments	\$ 126,712	\$ 73,127	\$ 199,839
Accounts receivable (net of allowances for uncollectibles)	<u>1,232</u>	<u>4,493</u>	<u>5,725</u>
Total current assets	<u>127,944</u>	<u>77,620</u>	<u>205,564</u>
Noncurrent assets:			
Deferred charges	-	191,139	191,139
Capital assets:			
Land	40,000	705,557	745,557
Buildings and improvements	913,425	4,150,874	5,064,299
Equipment	1,004,859	152,569	1,157,428
Construction in progress	-	100,249	100,249
Less: accumulated depreciation	<u>(996,721)</u>	<u>(766,607)</u>	<u>(1,763,328)</u>
Total capital assets	<u>961,563</u>	<u>4,342,642</u>	<u>5,304,205</u>
Total noncurrent assets	<u>961,563</u>	<u>4,533,781</u>	<u>5,495,344</u>
Total assets	<u>1,089,507</u>	<u>4,611,401</u>	<u>5,700,908</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,492	2,151	4,643
Accrued liabilities	1,683	-	1,683
Accrued interest payable	8,885	1,947	10,832
Customer deposits	900	-	900
Unearned revenue	-	15,360	15,360
Capital lease	94,460	-	94,460
Bonds payable	-	19,000	19,000
Compensated absences payable	<u>3,081</u>	<u>-</u>	<u>3,081</u>
Total current liabilities	<u>111,501</u>	<u>38,458</u>	<u>149,959</u>
Long-term liabilities:			
Capital lease	99,661	-	99,661
Bonds payable	-	127,865	127,865
Liability for landfill closure	<u>131,085</u>	<u>-</u>	<u>131,085</u>
Total long-term liabilities	<u>230,746</u>	<u>127,865</u>	<u>358,611</u>
Total liabilities	<u>342,247</u>	<u>166,323</u>	<u>508,570</u>
NET ASSETS			
Invested in capital assets, net of related debt	767,442	4,195,777	4,963,219
Unrestricted	<u>(20,182)</u>	<u>249,301</u>	<u>229,119</u>
Total net assets	<u>\$ 747,260</u>	<u>\$ 4,445,078</u>	<u>\$ 5,192,338</u>

CITY OF STEPHENVILLE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Sanitary Landfill	Airport	Total
OPERATING REVENUES			
Gate charges	\$ 276,833	\$ -	\$ 276,833
Hanger rental	-	69,729	69,729
Other service charges	<u>1,152</u>	<u>6,286</u>	<u>7,438</u>
Total operating revenues	<u>277,985</u>	<u>76,015</u>	<u>354,000</u>
OPERATING EXPENSES			
Personnel services	130,255	-	130,255
Contractual services	21,359	-	21,359
Utilities	574	30,553	31,127
Repairs and maintenance	10,936	19,561	30,497
Other	30,817	7,061	37,878
Depreciation	<u>105,404</u>	<u>97,180</u>	<u>202,584</u>
Total operating expenses	<u>299,345</u>	<u>154,355</u>	<u>453,700</u>
OPERATING LOSS	(21,360)	(78,340)	(99,700)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	116	-	116
Intergovernmental	-	5,184	5,184
Interest expense	<u>(14,637)</u>	<u>(6,448)</u>	<u>(21,085)</u>
Total nonoperating revenues (expenses)	<u>(14,521)</u>	<u>(1,264)</u>	<u>(15,785)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(35,881)	(79,604)	(115,485)
CAPITAL CONTRIBUTIONS	-	82,620	82,620
TRANSFER IN	<u>90,818</u>	<u>225,572</u>	<u>316,390</u>
CHANGE IN NET ASSETS	54,937	228,588	283,525
TOTAL NET ASSETS, BEGINNING	<u>692,323</u>	<u>4,216,490</u>	<u>4,908,813</u>
TOTAL NET ASSETS, ENDING	<u>\$ 747,260</u>	<u>\$ 4,445,078</u>	<u>\$ 5,192,338</u>

CITY OF STEPHENVILLE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Sanitary Landfill	Airport	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 279,168	\$ 91,681	\$ 370,849
Cash payments to employees	(131,056)	-	(131,056)
Cash payments to suppliers for goods and services	(57,902)	(56,440)	(114,342)
Cash provided by operating activities	<u>90,210</u>	<u>35,241</u>	<u>125,451</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from operating grant	-	5,184	5,184
Cash provided by noncapital financing activities	<u>-</u>	<u>5,184</u>	<u>5,184</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on capital lease	(170,619)	-	(170,619)
Principal payments on bonds	-	(18,000)	(18,000)
Interest and fiscal charges on debt	(22,468)	(6,687)	(29,155)
Grant match for capital grant	-	(191,148)	(191,148)
Transfers from other funds for capital acquisition	90,818	225,572	316,390
Acquisition and construction of capital assets	(15,464)	(17,619)	(33,083)
Cash used by capital and related financing activities	<u>(117,733)</u>	<u>(7,882)</u>	<u>(125,615)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	116	-	116
Cash provided by investing activities	<u>116</u>	<u>-</u>	<u>116</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(27,407)	32,543	5,136
CASH AND CASH EQUIVALENTS, BEGINNING	<u>154,119</u>	<u>40,584</u>	<u>194,703</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 126,712</u></u>	<u><u>\$ 73,127</u></u>	<u><u>\$ 199,839</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating loss	\$(21,360)	\$(78,340)	\$(99,700)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	105,404	97,180	202,584
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	1,083	306	1,389
Increase (decrease) in accounts payable	2,314	735	3,049
Increase (decrease) in accrued liabilities	2,573	-	2,573
Increase (decrease) in customer deposits	100	-	100
Increase (decrease) in unearned revenue	-	15,360	15,360
Increase (decrease) in compensated absences	96	-	96
Total adjustments	<u>111,570</u>	<u>113,581</u>	<u>225,151</u>
Net cash provided by operating activities	<u><u>\$ 90,210</u></u>	<u><u>\$ 35,241</u></u>	<u><u>\$ 125,451</u></u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Contributions of capital assets	<u><u>\$ -</u></u>	<u><u>\$ 82,620</u></u>	<u><u>\$ 82,620</u></u>

STATISTICAL SECTION

This part of the City of Stephenville, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	58
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources. Although sales taxes are the City's most significant local revenue source, information about revenue base is unavailable and information about principal revenue payers is confidential under Texas statutes. Trend information about sales tax revenues is provided in Table 2. Additionally, information about the City's second most significant local revenue source, the property tax, is provided.	66
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	70
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	75
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	77

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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TABLE 1

CITY OF STEPHENVILLE, TEXAS

NET ASSETS BY COMPONENT

LAST NINE FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:									
Invested in capital assets, net of related debt	\$ 8,671,383	\$ 8,877,241	\$ 9,070,652	\$ 9,734,777	\$ 10,157,475	\$ 10,513,386	\$ 18,471,335	\$ 16,763,870	\$ 16,605,859
Restricted	-	620,104	295,721	381,849	366,934	397,365	434,394	405,640	420,877
Unrestricted	<u>7,932,439</u>	<u>8,181,076</u>	<u>9,548,977</u>	<u>10,237,660</u>	<u>11,232,319</u>	<u>12,162,240</u>	<u>5,252,462</u>	<u>7,952,264</u>	<u>8,156,696</u>
Total governmental activities net assets	<u>\$ 16,603,822</u>	<u>\$ 17,678,421</u>	<u>\$ 18,915,350</u>	<u>\$ 20,354,286</u>	<u>\$ 21,756,728</u>	<u>\$ 23,072,991</u>	<u>\$ 24,158,191</u>	<u>\$ 25,121,774</u>	<u>\$ 25,183,432</u>
Business-type activities:									
Invested in capital assets, net of related debt	\$ 11,789,690	\$ 14,229,406	\$ 16,190,916	\$ 17,432,394	\$ 16,564,217	\$ 21,231,388	\$ 23,495,495	\$ 25,323,978	\$ 26,538,623
Restricted	508,583	470,750	514,842	599,910	665,099	554,647	710,870	690,998	714,547
Unrestricted	<u>5,621,026</u>	<u>4,134,841</u>	<u>5,301,524</u>	<u>6,516,830</u>	<u>9,087,784</u>	<u>7,178,489</u>	<u>5,974,684</u>	<u>4,566,114</u>	<u>5,548,656</u>
Total business-type activities net assets	<u>\$ 17,919,299</u>	<u>\$ 18,834,997</u>	<u>\$ 22,007,282</u>	<u>\$ 24,549,134</u>	<u>\$ 26,317,100</u>	<u>\$ 28,964,524</u>	<u>\$ 30,181,049</u>	<u>\$ 30,581,090</u>	<u>\$ 32,801,826</u>
Total:									
Invested in capital assets, net of related debt	\$ 20,461,073	\$ 23,106,647	\$ 25,261,568	\$ 27,167,171	\$ 26,721,692	\$ 31,744,774	\$ 41,966,830	\$ 42,087,848	\$ 43,144,482
Restricted	508,583	1,090,854	810,563	981,759	1,032,033	952,012	1,145,264	1,096,638	1,135,424
Unrestricted	<u>13,553,465</u>	<u>12,315,917</u>	<u>14,850,501</u>	<u>16,754,490</u>	<u>20,320,103</u>	<u>19,340,729</u>	<u>11,227,146</u>	<u>12,518,378</u>	<u>13,705,352</u>
Total net assets	<u>\$ 34,523,121</u>	<u>\$ 36,513,418</u>	<u>\$ 40,922,632</u>	<u>\$ 44,903,420</u>	<u>\$ 48,073,828</u>	<u>\$ 52,037,515</u>	<u>\$ 54,339,240</u>	<u>\$ 55,702,864</u>	<u>\$ 57,985,258</u>

Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF STEPHENVILLE, TEXAS

CHANGES IN NET ASSETS

LAST NINE FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year			
	2003	2004	2005	2006
EXPENSES				
Governmental activities:				
General government	\$ 1,262,164	\$ 1,421,563	\$ 1,453,986	\$ 1,441,939
Public safety	4,028,747	4,026,402	4,345,846	4,689,443
Streets	894,193	995,046	979,051	1,098,979
Culture and recreation	1,522,896	1,574,032	1,582,864	1,646,017
Community development	317,743	296,244	348,177	343,135
Interest on long-term debt	153,445	130,388	109,153	91,817
Total governmental activities expenses	<u>8,179,188</u>	<u>8,443,675</u>	<u>8,819,077</u>	<u>9,311,330</u>
Business-type activities:				
Water and wastewater	3,790,830	4,582,690	4,367,671	4,681,174
Sanitary landfill	211,159	151,309	99,078	119,832
Airport	99,847	101,082	8,633	18,075
Storm water drainage	14,034	35,462	166,346	232,955
Total business-type activities expenses	<u>4,115,870</u>	<u>4,870,543</u>	<u>4,641,728</u>	<u>5,052,036</u>
Total expenses	<u>\$ 12,295,058</u>	<u>\$ 13,314,218</u>	<u>\$ 13,460,805</u>	<u>\$ 14,363,366</u>
PROGRAM REVENUES				
Governmental activities:				
Charges for services:				
General government	\$ 21,421	\$ 195,176	\$ 172,292	\$ 177,636
Public safety	884,349	524,561	488,292	600,332
Streets	22,388	28,748	17,213	17,444
Culture and recreation	157,741	147,563	135,607	132,125
Community development	82,182	165,803	163,490	180,304
Operating grants and contributions	146,257	189,805	125,068	172,884
Capital grants and contributions	185,625	366,478	556,425	177,503
Total governmental activities program revenues	<u>1,499,963</u>	<u>1,618,134</u>	<u>1,658,387</u>	<u>1,458,228</u>
Business-type activities:				
Charges for services:				
Water and wastewater	\$ 4,261,555	\$ 4,564,193	\$ 5,245,901	\$ 5,628,658
Sanitary landfill	154,650	174,152	174,845	162,306
Airport	24,865	31,077	39,088	51,037
Storm water drainage	511,427	478,143	485,600	485,314
Operating grants and contributions	-	-	-	-
Capital grants and contributions	273,101	411,474	1,513,020	599,393
Total business-type activities program revenues	<u>5,225,598</u>	<u>5,659,039</u>	<u>7,458,454</u>	<u>6,926,708</u>
Total program revenues	<u>\$ 6,725,561</u>	<u>\$ 7,277,173</u>	<u>\$ 9,116,841</u>	<u>\$ 8,384,936</u>

TABLE 2

Fiscal Year				
2007	2008	2009	2010	2011
\$ 1,591,258	\$ 1,331,583	\$ 1,309,902	\$ 1,412,441	\$ 1,374,221
5,187,628	5,504,975	6,043,653	6,252,861	6,274,700
1,144,681	1,183,435	1,210,135	1,426,590	1,479,381
1,733,627	2,166,545	2,340,312	2,438,756	2,522,284
381,091	395,182	408,144	427,769	374,335
65,926	103,490	72,220	141,220	97,809
<u>10,104,211</u>	<u>10,685,210</u>	<u>11,384,366</u>	<u>12,099,637</u>	<u>12,122,730</u>
4,776,359	4,526,893	4,819,886	5,054,152	4,846,996
272,010	290,349	527,255	294,407	313,982
130,169	127,018	170,287	158,085	160,803
141,516	245,371	346,159	580,590	600,859
<u>5,320,054</u>	<u>5,189,631</u>	<u>5,863,587</u>	<u>6,087,234</u>	<u>5,922,640</u>
<u>\$ 15,424,265</u>	<u>\$ 15,874,841</u>	<u>\$ 17,247,953</u>	<u>\$ 18,186,871</u>	<u>\$ 18,045,370</u>
\$ 243,929	\$ 219,353	\$ 231,122	\$ 215,757	\$ 216,870
687,567	906,131	677,662	834,180	893,207
27,425	24,046	21,472	24,713	24,419
171,931	145,225	221,589	317,917	338,662
160,745	272,729	126,186	177,401	249,501
115,859	57,969	109,861	43,417	40,015
115,556	148	740,974	1,602,301	258,933
<u>1,523,012</u>	<u>1,625,601</u>	<u>2,128,866</u>	<u>3,215,686</u>	<u>2,021,607</u>
\$ 5,092,578	\$ 5,469,932	\$ 5,492,233	\$ 5,396,349	\$ 6,147,606
170,814	275,915	414,503	175,153	277,985
61,916	68,186	73,180	72,408	76,015
500,779	577,766	584,439	588,141	591,326
-	-	20,062	17,808	5,184
169,370	870,718	249,253	402,702	528,471
<u>5,995,457</u>	<u>7,262,517</u>	<u>6,833,670</u>	<u>6,652,561</u>	<u>7,626,587</u>
<u>\$ 7,518,469</u>	<u>\$ 8,888,118</u>	<u>\$ 8,962,536</u>	<u>\$ 9,868,247</u>	<u>\$ 9,648,194</u>

(continued)

CITY OF STEPHENVILLE, TEXAS

CHANGES IN NET ASSETS

(Continued)

LAST NINE FISCAL YEARS

(Accrual Basis of Accounting)

	Fiscal Year			
	2003	2004	2005	2006
NET (EXPENSE) REVENUES				
Governmental activities	\$(6,679,225)	\$(6,825,541)	\$(7,160,690)	\$(7,853,102)
Business-type activities	<u>1,109,728</u>	<u>788,496</u>	<u>2,816,726</u>	<u>1,874,672</u>
Total net expense	<u>(5,569,497)</u>	<u>(6,037,045)</u>	<u>(4,343,964)</u>	<u>(5,978,430)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental activities:				
Taxes:				
Property - general purposes	1,994,728	2,249,922	2,447,610	2,657,106
Property - debt service	545,552	540,467	448,663	437,146
Sales	3,217,670	3,538,100	3,654,232	4,101,973
Franchise	934,965	1,209,036	1,264,298	1,423,615
Other	208,534	262,467	292,447	312,528
Gain on sale of capital assets	-	-	-	-
Investment earnings	196,542	87,990	286,301	441,986
Miscellaneous	33,971	12,158	54,068	34,663
Transfers	<u>315,638</u>	<u>-</u>	<u>(50,000)</u>	<u>(116,979)</u>
Total governmental activities	<u>7,447,600</u>	<u>7,900,140</u>	<u>8,397,619</u>	<u>9,292,038</u>
Business-type activities:				
Investment earnings	105,970	100,773	305,559	518,164
Miscellaneous	9,137	26,429	-	32,037
Transfers	<u>(315,638)</u>	<u>-</u>	<u>50,000</u>	<u>116,979</u>
Total business-type activities	<u>(200,531)</u>	<u>127,202</u>	<u>355,559</u>	<u>667,180</u>
Total general revenues and other changes in net assets	<u>7,247,069</u>	<u>8,027,342</u>	<u>8,753,178</u>	<u>9,959,218</u>
CHANGE IN NET ASSETS				
Governmental activities	768,375	1,074,599	1,236,929	1,438,936
Business-type activities	<u>909,197</u>	<u>915,698</u>	<u>3,172,285</u>	<u>2,541,852</u>
Total change in net assets	<u>\$ 1,677,572</u>	<u>\$ 1,990,297</u>	<u>\$ 4,409,214</u>	<u>\$ 3,980,788</u>

Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

TABLE 2

Fiscal Year				
2007	2008	2009	2010	2011
\$(8,581,199)	\$(9,059,609)	\$(9,255,500)	\$(8,883,951)	\$(10,101,123)
<u>675,403</u>	<u>2,072,886</u>	<u>970,083</u>	<u>565,327</u>	<u>1,703,947</u>
<u>(7,905,796)</u>	<u>(6,986,723)</u>	<u>(8,285,417)</u>	<u>(8,318,624)</u>	<u>(8,397,176)</u>
2,913,521	3,131,702	3,382,272	3,371,138	3,595,948
476,117	527,921	536,671	608,404	526,519
4,351,269	4,745,309	4,622,690	4,275,545	4,616,312
1,370,838	1,169,858	1,186,650	1,018,036	1,120,678
388,013	434,498	372,815	341,456	363,645
-	-	-	323,641	12,159
623,810	454,269	108,218	32,294	13,517
75,994	17,186	124,613	14,190	26,870
<u>(215,921)</u>	<u>(104,871)</u>	<u>6,771</u>	<u>(112,834)</u>	<u>(137,203)</u>
<u>9,983,641</u>	<u>10,375,872</u>	<u>10,340,700</u>	<u>9,871,870</u>	<u>10,138,445</u>
876,642	469,667	68,079	6,714	5,151
-	-	7,888	-	-
<u>215,921</u>	<u>104,871</u>	<u>(6,771)</u>	<u>112,834</u>	<u>137,203</u>
<u>1,092,563</u>	<u>574,538</u>	<u>69,196</u>	<u>119,548</u>	<u>142,354</u>
<u>11,076,204</u>	<u>10,950,410</u>	<u>10,409,896</u>	<u>9,991,418</u>	<u>10,280,799</u>
1,402,442	1,316,263	1,085,200	987,919	37,322
<u>1,767,966</u>	<u>2,647,424</u>	<u>1,039,279</u>	<u>684,875</u>	<u>1,846,301</u>
<u>\$ 3,170,408</u>	<u>\$ 3,963,687</u>	<u>\$ 2,124,479</u>	<u>\$ 1,672,794</u>	<u>\$ 1,883,623</u>

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TABLE 3

CITY OF STEPHENVILLE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDSLAST TEN FISCAL YEARS
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund										
Reserved	\$ -	\$ 7,178	\$ 4,072	\$ 13,349	\$ 10,352	\$ 15,224	\$ 8,653	\$ 12,680	\$ 9,148	\$ -
Unreserved	6,429,861	7,309,934	8,017,965	8,361,416	9,045,429	10,039,416	9,555,553	7,358,831	7,196,152	-
Nonspendable	-	-	-	-	-	-	-	-	-	18,836
Assigned	-	-	-	-	-	-	-	-	-	3,750,000
Unassigned	-	-	-	-	-	-	-	-	-	3,779,268
Total general fund	<u>\$ 6,429,861</u>	<u>\$ 7,317,112</u>	<u>\$ 8,022,037</u>	<u>\$ 8,374,765</u>	<u>\$ 9,055,781</u>	<u>\$ 10,054,640</u>	<u>\$ 9,564,206</u>	<u>\$ 7,371,511</u>	<u>\$ 7,205,300</u>	<u>\$ 7,548,104</u>
All other governmental funds										
Reserved										
Debt service funds	\$ 30,337	\$ 41,081	\$ 41,285	\$ 50,563	\$ 69,443	\$ 82,233	\$ 89,253	\$ 96,071	\$ 93,267	\$ -
Unreserved, reported in:										
Special revenue funds	207,743	237,911	211,765	247,743	318,028	280,798	350,750	332,799	337,679	-
Capital projects funds	895,894	772,431	735,191	1,063,030	1,051,972	1,069,303	2,429,680	1,676,876	1,155,196	-
Restricted	-	-	-	-	-	-	-	-	-	424,194
Assigned	-	-	-	-	-	-	-	-	-	486,235
Total all other governmental funds	<u>\$ 1,133,974</u>	<u>\$ 1,051,423</u>	<u>\$ 988,241</u>	<u>\$ 1,361,336</u>	<u>\$ 1,439,443</u>	<u>\$ 1,432,334</u>	<u>\$ 2,869,683</u>	<u>\$ 2,105,746</u>	<u>\$ 1,586,142</u>	<u>\$ 910,429</u>

Note:

The City implemented GASB Statement 54 in fiscal year 2011. Prior year balances have not been restated to conform to GASB Statement 54.

TABLE 4

CITY OF STEPHENVILLE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES										
Taxes	\$ 7,067,904	\$ 6,891,072	\$ 7,804,900	\$ 8,103,134	\$ 8,942,235	\$ 9,506,528	\$ 10,004,265	\$ 10,104,779	\$ 9,570,777	\$ 10,251,019
Service charges	523,825	545,763	697,355	651,021	640,935	738,526	839,684	948,049	1,178,800	1,076,971
Fines and forfeitures	135,897	248,426	229,922	207,407	279,716	353,889	361,027	226,083	229,357	295,075
Licenses and permits	86,583	84,669	168,519	168,523	183,839	164,071	275,887	131,341	138,675	255,269
Intergovernmental	242,187	249,564	306,510	104,228	188,096	111,889	87,730	124,581	1,366,544	147,510
Investment earnings	275,793	194,772	87,991	286,300	441,986	623,810	454,269	108,218	32,294	13,517
Miscellaneous	61,705	125,027	52,734	108,222	60,110	119,731	19,734	35,189	19,269	37,977
Special assessments	55,415	-	-	402,789	28,122	-	-	-	-	-
Total revenues	<u>8,449,309</u>	<u>8,339,293</u>	<u>9,347,931</u>	<u>10,031,624</u>	<u>10,765,039</u>	<u>11,618,444</u>	<u>12,042,596</u>	<u>11,678,240</u>	<u>12,535,716</u>	<u>12,077,338</u>
EXPENDITURES										
General government	1,091,746	1,113,323	1,274,807	1,231,709	1,349,248	1,491,202	1,293,925	1,355,822	1,359,012	1,319,243
Public safety	3,603,448	3,821,859	3,874,454	4,140,738	4,562,217	4,955,771	5,459,268	5,827,418	6,048,150	6,084,813
Streets	620,714	561,646	630,057	578,126	699,290	735,614	824,764	845,429	850,428	937,367
Culture and recreation	1,294,316	1,357,624	1,336,974	1,412,305	1,466,261	1,518,938	1,931,846	2,006,999	2,072,331	2,189,768
Community development	250,776	317,743	295,036	346,969	337,659	375,614	394,833	407,208	420,982	367,228
Debt service										
Principal	450,000	470,000	500,000	420,000	430,000	455,000	475,000	425,000	460,000	420,000
Interest	178,813	157,032	133,441	111,582	91,817	71,105	49,195	99,652	144,279	98,117
Bond issuance costs	-	-	-	-	-	-	12,725	25,000	-	-
Capital outlay	<u>868,370</u>	<u>366,753</u>	<u>661,419</u>	<u>1,014,372</u>	<u>952,446</u>	<u>807,528</u>	<u>1,902,168</u>	<u>5,265,493</u>	<u>2,099,912</u>	<u>889,326</u>
Total expenditures	<u>8,358,183</u>	<u>8,165,980</u>	<u>8,706,188</u>	<u>9,255,801</u>	<u>9,888,938</u>	<u>10,410,772</u>	<u>12,343,724</u>	<u>16,258,021</u>	<u>13,455,094</u>	<u>12,305,862</u>

(continued)

TABLE 4

CITY OF STEPHENVILLE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

(Continued)

LAST TEN FISCAL YEARS

(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ <u>91,126</u>	\$ <u>173,313</u>	\$ <u>641,743</u>	\$ <u>775,823</u>	\$ <u>876,101</u>	\$ <u>1,207,672</u>	\$ (<u>301,128</u>)	\$ (<u>4,579,781</u>)	\$ (<u>919,378</u>)	\$ (<u>228,524</u>)
OTHER FINANCING SOURCES (USES)										
Issuance of bonds	-	-	-	-	-	-	1,325,000	1,500,000	-	-
Proceeds from sale of capital assets	-	-	-	-	-	-	27,914	21,881	338,054	27,316
Proceeds from insurance	-	-	-	-	-	-	-	94,497	8,343	5,502
Transfers in	251,085	423,414	90,000	90,000	94,500	55,000	207,629	2,461,037	204,320	292,052
Transfers out	(<u>102,195</u>)	(<u>107,776</u>)	(<u>90,000</u>)	(<u>140,000</u>)	(<u>211,479</u>)	(<u>270,921</u>)	(<u>312,500</u>)	(<u>2,454,266</u>)	(<u>317,154</u>)	(<u>429,255</u>)
Total other financing sources (uses)	<u>148,890</u>	<u>315,638</u>	<u>-</u>	(<u>50,000</u>)	(<u>116,979</u>)	(<u>215,921</u>)	<u>1,248,043</u>	<u>1,623,149</u>	<u>233,563</u>	(<u>104,385</u>)
NET CHANGE IN FUND BALANCES	\$ <u>240,016</u>	\$ <u>488,951</u>	\$ <u>641,743</u>	\$ <u>725,823</u>	\$ <u>759,122</u>	\$ <u>991,751</u>	\$ <u>946,915</u>	\$ (<u>2,956,632</u>)	\$ (<u>685,815</u>)	\$ (<u>332,909</u>)
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<u>9.2%</u>	<u>8.7%</u>	<u>8.5%</u>	<u>6.9%</u>	<u>6.2%</u>	<u>5.8%</u>	<u>5.3%</u>	<u>5.0%</u>	<u>5.6%</u>	<u>3.9%</u>

TABLE 5

CITY OF STEPHENVILLE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
2002	\$ 277,642,872	\$ 302,960,725	\$ 97,250,070	\$ 189,978,791	\$ 487,874,876	\$0.4800	\$ 497,831,506
2003	300,285,040	341,944,306	97,673,680	221,495,172	518,407,854	0.4850	528,987,606
2004	332,268,337	380,965,905	111,273,080	249,575,629	574,931,693	0.4850	586,664,993
2005	352,795,683	386,744,845	105,901,750	253,232,383	592,209,895	0.4850	604,295,811
2006	387,312,400	403,019,380	113,971,870	260,321,554	643,982,096	0.4750	657,124,588
2007	436,191,340	446,012,320	124,665,270	287,207,489	719,661,441	0.4650	734,348,409
2008	473,515,020	493,287,390	139,045,430	287,501,749	818,346,091	0.4450	835,047,032
2009	530,504,500	521,967,390	134,864,860	296,981,931	890,354,819	0.4350	908,525,326
2010	541,059,730	514,106,150	145,588,370	305,171,070	895,583,180	0.4435	913,860,388
2011	546,372,660	514,213,740	127,553,350	302,938,397	885,201,353	0.4600	903,266,687

Source: Erath County Appraisal District.

Note: Property in Erath County is reassessed once every three years on average. The County assesses property at approximately 95 percent of actual value for commercial, industrial and residential property. Estimated actual taxable value is calculated by dividing taxable assessed value by those percentages. Tax rates are per \$100 of assessed value.

TABLE 6

CITY OF STEPHENVILLE, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES

LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates			Total Direct and Overlapping Rates
	Basic Rate	General Obligation Debt Service	Total Direct Rate	Stephenville School District	Middle Trinity Water District	Erath County	
2002	\$0.3678	\$0.1122	\$0.4800	\$0.1690	-	\$0.4785	\$1.1275
2003	0.3812	0.1038	0.4850	1.6900	\$0.0150	0.4700	2.6600
2004	0.3913	0.0937	0.4850	1.6700	0.0150	0.4512	2.6212
2005	0.4107	0.0743	0.4850	1.6700	0.0150	0.4625	2.6325
2006	0.4079	0.0671	0.4750	1.6600	0.0150	0.4410	2.5910
2007	0.3996	0.0654	0.4650	1.5199	0.0150	0.4352	2.4351
2008	0.3811	0.0639	0.4450	1.1920	0.0150	0.4187	2.0707
2009	0.3762	0.0588	0.4350	1.1470	0.0150	0.3915	1.9885
2010	0.3762	0.0673	0.4435	1.1470	0.0150	0.3900	1.9955
2011	0.4015	0.0585	0.4600	1.1470	0.0150	0.4500	2.0720

Source: Erath County Appraisal District

Notes: The City's basic property tax rate may be increased only by a majority vote of the City's residents. Rates for debt service are set based on each year's requirements.

Overlapping rates are those of local and county governments that apply to property owners within the City of Stephenville, Texas.

TABLE 7

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2011		2002	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
FMC Company	\$ 37,355,452	4.22%	\$ 22,566,189	4.35%
Saint Gobain Abrasives	16,632,836	1.88%	16,322,241	3.15%
Stephenville Campus Crest	11,872,640	1.34%	-	- %
Bosque River Associates	8,118,020	0.92%	9,543,390	1.84%
Oncor Electric Delivery	7,569,510	0.86%	7,240,170	1.40%
Stephenville Student Housing LP	8,956,830	1.01%	-	- %
Wal-Mart Stores, Inc. #1	8,737,210	0.99%	8,284,090	1.60%
United Telephone Company (Century Link)	6,928,430	0.78%	5,496,420	1.06%
Bruner Motors	-	- %	3,469,480	0.67%
Wilmington Trust (Wal-Mart #2)	6,000,730	0.68%	6,793,140	1.31%
Rayloc Genaut	-	- %	4,485,122	0.86%
Emerson Electric Company	-	- %	4,672,463	0.90%
Subtotal	\$ 112,171,658	12.67%	\$ 88,872,705	17.14%
Remaining Roll	<u>773,029,695</u>	<u>87.33%</u>	<u>429,760,651</u>	<u>82.86%</u>
Total	<u>\$ 885,201,353</u>	<u>100.00%</u>	<u>\$ 518,633,356</u>	<u>100.00%</u>

Source: Erath County Appraisal District State Property Tax Board Report.

TABLE 8

CITY OF STEPHENVILLE, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		O/S as of 09/30/11
		Amount	Percentage of Levy		Amount	Percentage of Levy	
2002	\$ 2,348,927	\$ 2,294,810	97.70%	\$ 52,617	\$ 2,347,427	99.94%	\$ 1,500
2003	2,513,625	2,462,155	97.95%	44,531	2,506,686	99.72%	6,939
2004	2,788,419	2,726,244	97.77%	58,974	2,785,218	99.89%	3,201
2005	2,832,529	2,808,747	99.16%	19,774	2,828,521	99.86%	4,008
2006	3,066,225	3,018,008	98.43%	44,457	3,062,465	99.88%	3,760
2007	3,344,539	3,307,083	98.88%	33,018	3,340,101	99.87%	4,438
2008	3,641,808	3,602,598	98.92%	32,781	3,635,379	99.82%	6,429
2009	3,874,843	3,822,492	98.65%	41,910	3,864,402	99.73%	10,441
2010	3,965,938	3,887,038	98.01%	54,033	3,941,071	99.37%	24,867
2011	4,059,655	4,007,449	98.71%	-	4,007,449	98.71%	52,206

Sources: Erath County Appraisal District and Erath County Tax Assessor-Collector.

TABLE 9

CITY OF STEPHENVILLE, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities		Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Certificates of Participation	Water Revenue Bonds	Certificates of Participation	Capital Leases			
2002	\$ 1,970,000	\$ 1,445,000	\$ 13,455,000	\$ 1,150,000	\$ -	\$ 18,020,000	5.09%	\$ 1,201
2003	1,615,000	1,330,000	6,660,000	7,905,000	-	17,510,000	4.91%	1,118
2004	1,235,000	1,210,000	6,295,000	14,174,233	-	22,914,233	6.09%	1,443
2005	945,000	1,080,000	5,910,000	13,250,233	-	21,185,233	5.19%	1,300
2006	645,000	950,000	5,500,000	14,305,233	259,184	21,659,417	5.03%	1,283
2007	330,000	810,000	5,210,000	17,660,134	219,920	24,230,054	5.02%	1,421
2008	1,325,000	665,000	4,905,000	20,644,155	177,337	27,716,492	5.56%	1,607
2009	2,550,000	515,000	4,585,000	19,456,865	499,724	27,606,589	N/A	1,538
2010	2,255,000	350,000	4,250,000	18,179,865	364,740	25,399,605	N/A	1,483
2011	2,185,000	-	3,895,000	16,866,865	194,121	23,140,986	N/A	1,324

Notes: The City issued over \$5 million of new certificates of participation in 2008.

See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

Personal income is not available for 2009-2011.

TABLE 10

CITY OF STEPHENVILLE, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificates of Obligations	Total		
2002	\$ 1,970,000	\$ 1,445,000	\$ 3,415,000	0.70%	\$ 228
2003	1,615,000	1,330,000	2,945,000	0.57%	188
2004	1,235,000	1,210,000	2,445,000	0.43%	154
2005	945,000	1,080,000	2,025,000	0.34%	124
2006	645,000	950,000	1,595,000	0.25%	94
2007	330,000	810,000	1,140,000	0.16%	67
2008	1,325,000	665,000	1,990,000	0.24%	115
2009	2,550,000	515,000	3,065,000	0.34%	171
2010	2,255,000	350,000	2,605,000	0.29%	152
2011	2,185,000	-	2,185,000	0.25%	125

Notes:

See Table 5 for property value data.

Population data can be found in Table 14.

TABLE 11

CITY OF STEPHENVILLE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2011

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes:			
Stephenville Independent School District	\$ 9,169,326	68.45%	\$ 6,276,404
Erath County	6,533,000	38.79%	<u>2,534,151</u>
Subtotal, overlapping debt			8,810,555
City of Stephenville direct debt	2,185,000	100.00%	<u>2,185,000</u>
Total direct and overlapping debt			<u><u>\$ 10,995,555</u></u>

Sources:

Assessed value data used to estimate applicable percentages provided by the Erath County Appraisal District and Assessment Debt outstanding data provided by each governmental unit.

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Stephenville. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident--and therefore responsible for repaying the debt--of each overlapping government.

CITY OF STEPHENVILLE, TEXAS

LEGAL DEBT MARGIN AND TAX RATE LIMITATIONS INFORMATION

As a home rule city, the City of Stephenville is not limited by law in the amount of debt it may issue.

Under Article XI, Section 5 of the Texas Constitution, no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of the City.

All taxable property within the City is subject to assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal and interest on the bonds within the limits prescribed by law. Under rules promulgated by the Office of the Attorney General of Texas, such office will not approve tax bonds of the City unless the City can demonstrate its ability to pay debt service requirements on all outstanding City tax bonds, including the issue to be approved.

Tax Rate Limitation Calculation for Fiscal Year 2011

Taxable assessed valuation	\$ 885,201,353
Constitutional tax rate limit	2.50% of assessed valuation
Maximum constitutional revenue available	\$ 22,130,034
Tax rate to achieve maximum tax revenue	\$2.50 per \$100 of valuation
Tax rate for FY 2009-2010	\$0.4600 per \$100 of valuation
Available unused constitutional max tax rate	\$2.0400 per \$100 of valuation
Debt applicable to limit:	
General obligation debt	\$ 2,185,000

DEBT TAX RATE ADEQUACY

2011 Principal and Interest Requirements	\$ 306,075
\$0.0352 Tax Rate at 98% Collection Produces	306,070
Average Annual Principal and Interest Requirement, 2012-2019	319,205
\$0.0367 Tax Rate at 98% Collection Produces	319,204
Maximum Principal and Interest Requirements	306,075
\$0.0588 Tax Rate at 98% Collection Produces	306,070

DEBT SERVICE FUND BUDGET PROJECTION

Tax Obligation Debt Service Requirements, Fiscal Year Ending 9-30-2012		306,075
Debt Service Fund, 9-30-11	\$ 106,908	
Debt Service Fund Tax Levy @ 98% Collection	<u>306,070</u>	<u>\$ 412,978</u>

TABLE 13

CITY OF STEPHENVILLE, TEXAS

PLEDGED REVENUE COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	Water and Wastewater Revenue Bonds					
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2002	\$ 4,578,747	\$ 2,459,300	\$ 2,119,447	\$ 1,000,000	\$ 641,944	\$ 1.29
2003	4,372,612	2,321,847	2,050,765	1,145,000	642,281	1.15
2004	4,556,045	2,569,643	1,986,402	1,240,000	559,001	1.10
2005	5,511,586	2,553,909	2,957,677	1,331,000	712,056	1.45
2006	5,628,658	2,931,743	2,696,915	1,355,000	752,077	1.28
2007	5,092,578	2,946,356	2,146,222	1,220,000	819,564	1.05
2008	5,469,932	2,851,562	2,618,370	1,290,000	650,238	1.35
2009	5,492,233	3,060,691	2,431,542	1,340,000	652,120	1.22
2010	5,396,349	3,283,861	2,112,488	1,390,000	600,240	1.06
2011	6,147,606	3,106,016	3,041,590	1,435,000	543,289	1.54

Notes: Operating expenses do not include interest, depreciation, or amortization expenses.

TABLE 14

CITY OF STEPHENVILLE, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>College Enrollment</u>	<u>Unemployment Rate</u>
2002	\$ 15,000	\$ 354,210,000	\$ 23,614	\$ 3,444	\$ 6,827	3.3%
2003	15,665	356,817,370	22,778	3,530	7,197	3.2%
2004	15,884	376,387,264	23,696	3,417	7,347	2.7%
2005	16,300	407,858,600	25,022	3,512	7,589	3.9%
2006	16,882	430,929,932	25,526	3,550	7,776	3.9%
2007	17,050	483,043,550	28,331	3,521	7,840	3.8%
2008	17,250	498,231,750	28,883	3,496	7,763	4.0%
2009	17,950	535,448,500	29,830	3,553	8,242	7.1%
2010	17,123	N/A	N/A	3,794	8,896	7.0%
2011	17,480	N/A	N/A	3,584	9,575	6.5%

Sources: Population, median age, and education level information provided by the State Department of Planning. Personal income and unemployment data provided by the State Department of Commerce and Labor. School enrollment data provided by the Stephenville Independent School District and Tarleton State University.

Note: Population, median age, and education level information are based on surveys conducted during the last quarter of the calendar year. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

Personal income is not available for 2009-2011.

Table 15

CITY OF STEPHENVILLE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT YEAR

Employer	2011	
	Employees	Percentage of Total City Employment
Tarleton State University	1,166	6.52%
FMC Company	790	4.42%
Saint Gobain Abrasives	477	2.67%
Stephenville Independent School District	236	1.32%
Wal-Mart Stores, Inc.	460	2.57%
Scheiber Foods	341	1.91%
Texas Health Harris Methodist Hospital Stephenville	279	1.56%
Western Dairy Transport	150	0.84%
Outlaw Conversions	105	0.59%
Erath County	174	0.97%
United Cooperative Services	50	0.28%
Emerson Electric Company	128	0.72%
Stephenville Medical & Surgical Clinic	128	0.72%
Tejas Tubular (Caporal Forging)	165	0.92%
Fibergrate Composite Structures	134	0.75%
Bruner Motors	150	0.84%
Southwestern Linen	38	0.21%
Texstar Ford	35	0.20%
Reynolds Nationwide Transport	35	0.20%
USTRA (USTRC)	19	0.11%
Subtotal	5,060	28.29%
Remaining Employers	12,828	71.71%
Total	17,888	100.00%

Source:

City Community Development Division. Total employee data is provided by the State Department of Commerce and Labor.

Notes:

Total employee information is based on entire Erath County. Principal employers are only those that operate from within the corporate city limits of Stephenville.

TABLE 16

CITY OF STEPHENVILLE, TEXAS
FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government										
Management services	4	4	4	4	4	4	4	4	4	4
Finance	6	7	7	7	7	7	7	7	7	7
Planning	2	2	2	2	2	2	2	2	2	2
Building	1	1	1	1	2	2	2	2	2	2
Other	1	1	1	1	1	1	1	1	1	1
Police										
Officers	30	30	31	31	31	34	38	38	38	38
Civilians	11	11	11	13	13	12	12	12	12	12
Fire										
Firefighters and officers	26	26	26	26	27	28	31	31	31	31
Parks and recreation	11	13	13	13	13	13	13	13	13	13
Library	4	4	4	4	4	3	3	3	3	3
Streets	7	7	7	7	7	7	7	7	7	7
Water	9	9	9	9	10	13	13	13	13	13
Wastewater	8	8	8	8	8	5	5	5	5	5
Landfill	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total	<u>122</u>	<u>125</u>	<u>126</u>	<u>128</u>	<u>131</u>	<u>133</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>

Source: City Human Resource Office

Notes: A fulltime employee is scheduled to work 2080 hours per year (including vacation and sick leave). Fulltime equivalent employment is calculated by dividing total labor hours by 2080.

TABLE 17

CITY OF STEPHENVILLE, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government										
Building permits issued	234	222	140	172	125	153	135	109	90	148
Building permits value	\$12,118,416	\$10,467,400	\$21,515,373	\$18,442,334	\$12,262,542	\$16,144,842	\$27,821,098	\$11,978,341	\$8,456,287	\$29,365,010
Police										
Calls for service	10,207	10,203	10,483	10,358	11,234	11,730	11,739	12,730	13,424	17,278
Physical arrests	762	1,134	825	959	999	1,447	1,023	953	916	717
Parking violations	404	530	324	386	334	498	171	206	346	401
Traffic violations	3,164	5,094	5,350	3,588	3,066	4,469	2,473	1,634	1,478	4,639
Fire										
Ambulance responses	1,468	1,372	1,183	1,291	1,255	1,537	1,472	1,502	1,442	1,524
Fires responses	412	339	185	235	305	235	219	230	241	282
Inspections	149	135	132	109	105	313	280	326	359	316
Refuse collection										
Refuse collected (tons)	-	-	-	-	-	-	-	-	15,984	15,538
Other public works										
Street resurfacing (miles)	2.35	2.39	1.35	1.14	1.52	2.70	2.23	2.68	1.25	0.90
Library										
Volumes in collection	40,161	43,331	46,938	48,548	47,510	43,737	43,827	44,200	39,333	33,709
Total volumes borrowed	237	110	138	155	114	116	94	227	129	132
Water										
New connections	5,319	5,242	5,521	5,253	5,550	5,660	5,670	5,700	5,624	5,698
Water main breaks	52	49	54	50	48	49	44	61	62	70
Average daily consumption (thousands of gallons)	2,158,000	2,124,000	1,971,990	2,042,000	2,254,000	1,828,000	2,080,000	2,004,000	1,970,000	2,447,000
Peak daily consumption (thousands of gallons)	4,174,000	4,133,000	3,598,000	3,499,000	4,397,000	3,091,000	3,848,000	3,663,000	3,666,000	4,765,000
Wastewater										
Average daily sewage treatment (thousands of gallons)	1,311,000	1,354,000	1,456,000	1,334,000	1,414,000	1,691,000	1,548,000	1,518,000	1,745,000	1,395,000

Source: Various City departments

TABLE 18

CITY OF STEPHENVILLE, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	9	10	10	10	10	10	10	10	10	10
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Other public works										
Streets (miles)	87	92	92	92	92	96	96	96	91	91
Highways (miles)	19	19	19	19	19	21	21	21	23	23
Streetlights	992	1,013	1,013	1,013	1,013	1,070	1,080	1,096	1,119	1,121
Parks and recreation										
Acreage	134	134	134	134	134	134	130	130	130	130
Playgrounds	4	4	4	4	4	4	4	4	4	4
Baseball/softball diamonds	9	9	9	9	9	9	9	9	11	11
Soccer/football fields	1	1	1	1	1	1	1	1	1	1
Community centers	2	2	2	2	2	2	2	2	2	2
Water										
Water mains (miles)	112	116	117	117	120	122	124	125	125	126
Fire hydrants	623	650	670	670	680	692	720	735	771	788
Storage capacity (thousands of gallons)	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000	5,750,000	5,750,000	5,750,000	5,750,000
Wastewater										
Sanitary sewers (miles)	96	105	105	110	110	113	114	115	115	116
Storm sewers (miles)	10	10	10	10	10	10	10.5	10.5	10.5	10.5
Treatment capacity (thousands of gallons)	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000

Source: Various City departments

Note: No capital asset indicators are available for the general government function.

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REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the City Council
City of Stephenville, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stephenville, Texas, (the “City”) as of and for the year ended September 30, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated January 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, federal and state awarding agencies and pass-through entities and is not included to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

January 20, 2012